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NATIONAL CREDIT UNION ADMINISTRATION

1998 Annual Report

COMPLETE

H.R. 1151
BECOMES REALITY

February 25	**Supreme Court rules against credit unions 5 to 4.**
March 11	**House Banking Committee holds hearing on credit union field of membership.**
April 1	**House of Representatives passes H.R. 1151 by 411 to 8.**
April 2	**Senate Banking Committee holds hearing on credit union field of membership.**
April 30	**Senate Banking Committee passes H.R. 1151 by 16 to 2.**
July 28	**U.S. Senate passes H.R. 1151 by 92 to 6.**
August 4	**House of Representatives sends H.R. 1151 to the White House for signature.**
August 7	**President Clinton signs H.R. 1151 into law.**

99-025806 TC

Financial Highlights 1998

NCUA Operating Fund

Operating fee revenue	$ 50.6 million
Other income	1.6 million
Total revenue	52.2 million
Expense budget	109.3 million
Actual expenses	100.6 million
Expenses transferred to Share Insurance Fund	50.3 million
Operating Fund expenses	50.3 million
Net income	2.0 million
Operating Fund balance	8.1 million

National Credit Union Share Insurance Fund

Total revenue	$ 220.0 million
Operating expenses	51.1 million
Insurance loss expense	0.0 million
Net income	168.9 million
Reserve for losses	78.6 million
Fund balance	3.8 billion
Equity ratio (fund balance as percentage of insured deposits)	1.30 percent

Central Liquidity Facility

Net income	$ 39.4 million
Dividends paid	39.4 million
Total assets	805.6 million
Retained earnings	11.5 million
Capital stock	768.3 million

Federally Insured Credit Unions

Number of credit unions	10,995
Total assets	$ 388.7 billion
Total insured shares	321.5 billion
Total loans	245.7 billion
Capital to assets	11.5 percent
Share growth	10.7 percent
Ratio of loans to shares	72.3 percent
Delinquency ratio	0.9 percent
Net income (before reserve transfers)	0.9 percent

Contents

The National Credit Union Administration is an independent federal agency that supervises and insures federal credit unions and insures many state-chartered credit unions. It is entirely funded by credit unions and receives no tax dollars.

This 1998 NCUA Annual Report is NCUA's official report to the President and Congress of the United States. This report includes the financial statements of the NCUA Operating Fund, the National Credit Union Share Insurance Fund, and the Central Liquidity Facility.

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
703-518-6300

NCUA Mission Statement

The NCUA's mission is to:

- ***monitor and promote safe and sound credit unions;***
- ***responsibly administer the Share Insurance Fund; and***
- ***encourage service to the American consumers, particularly people of modest means; while providing a flexible regulatory environment and carefully managing the agency's resources.***

Board Statements

1998, A Pivotal Year for Credit Unions

Future generations will look back on 1998 as a pivotal year for the credit union industry. At a grassroots level, credit unions went to the United States Congress to defend the purpose and principles of their movement and to the American public to raise awareness of their special mission. At the same time, credit union service to members and the soundness of the National Credit Union Share Insurance Fund never faltered.

In November 1998, the National Credit Union Share Insurance Fund returned its fourth consecutive and largest dividend to credit unions—totaling $118 million. After the dividend, the Fund ended the year with a 1.3 percent equity ratio. Eighteen credit unions failed in 1998, resulting in $3.6 million being charged to reserves.

Assets at federally insured credit unions grew 10.7 percent, to $388.7 billion. Total loans grew 5.8 percent to $245.7 billion. The 10,995 federally insured credit unions reported savings growth of 10.7 percent to $339.9 billion.

Meanwhile, the *Credit Union Membership Access Act* codified the credit union philosophy of "people helping people" by enabling credit unions to reach out and serve diverse groups and neighborhoods, many too small or inexperienced to organize their own not-for-profit financial cooperative.

While the legislation was put in place, NCUA continued its commitment to help credit unions serve the underserved in a safe and sound financial environment. The "Empowerment 2000" workshops — two-days of free training for small credit unions—were so popular with participants that the demand for additional education was swift and overwhelming.

Meeting in St. Louis, Phoenix and Miami, "Empowerment 2000" gave small credit union directors and managers a rare opportunity to meet and compare notes and experiences with others from similar-sized credit unions around the country.

NCUA's six economic development specialists (EDS), one per region, were essential to "Empowerment 2000" dialogue just as they are

Norman E. D'Amours
Chairman

vital to the success of the small credit union programs. Despite their number and limited resources, the EDS team does an outstanding job of assisting the needs of credit unions with assets of $5 million and under.

Year 2000 computer issues are also a major priority for the agency as the century date change approaches. NCUA's Y2K initiatives during 1998 included conferences, vendor reviews, and close on-site and off-site supervision of individual credit unions and the entire industry.

1998 was an historic year. The new *Credit Union Membership Access Act* will ensure that credit unions continue to prosper into the next century and beyond, remaining viable, thriving institutions that contribute to help people help themselves.

Board Statements

Cooperation and Member Service Distinguish Credit Unions

Yolanda Townsend Wheat
Board Member

Congressional passage of H.R. 1151 by an overwhelming bipartisan majority heralded a major victory for credit union members across America. Watching the credit union community work together to accomplish this legislative endeavor showcased the most distinguishing characteristic of the credit union movement: COOPERATION.

Credit unions took on a battle of necessity with respect to H.R. 1151. The way to win not only the battle, but the war, is to keep the focus on member service. As we enter the next century, credit unions have an ongoing obligation to assess their members' needs and position their financial institutions to meet those needs.

The NCUA is committed to increasing access to credit unions for underserved individuals and all other eligible consumers by facilitating the formation of new credit unions and the expansion of existing credit unions. Finding ways to expand member service and increase members within their fields of membership, particularly to underserved areas, remains a significant challenge for credit unions as we turn the century marker.

As we approach the new century, the vast majority of credit unions appear well positioned to address Year 2000 issues. Investments in technology made to meet Y2K challenges will give credit unions new opportunities to serve their members well into the next millennium. The Agency will continue to devote tremendous resources addressing Year 2000 issues within the credit union system. Through safety and soundness examinations and contingency and liquidity planning, the credit union system should be well equipped to address any millennium bugs that may hatch after the stroke of midnight on December 31, 1999.

With the cooperative spirit as a guiding light, credit unions will endeavor to overcome constant legal challenges to field of membership issues. The light at the end of the tunnel will be financial success achieved with sound fiscal management and innovative member service. Credit unions can expect an Agency focused on returning to the annual examination cycle by the Year 2000 with an eye toward continued safety and soundness throughout the system.

Board Statements

Dennis Dollar
Board Member

Reflections on '98 With an Eye on the Millennium

To say that 1998 was an eventful year for NCUA and this nation's over 11,000 credit unions would indeed be an understatement. Headlines were dominated by such events as the Supreme Court decision in the AT&T Family FCU case, the overwhelming passage of HR 1151 and its signing into law by the President. While the attention of millions of credit union members was centered on these major events, their credit unions continued to perform well and reflect impressive industry-wide strength and stability.

Once again, federally insured credit unions reported growth in assets, shares, capital, and loans. The Share Insurance Fund continued to perform extremely well and for the fourth consecutive year returned a dividend to credit unions, this year totaling $118 million. These are positive indicators of a strong and viable credit union industry, as well as an endorsement of NCUA's ongoing and diligent efforts to maintain a regulatory environment that emphasizes safety and soundness.

With the passage of HR 1151, NCUA moved quickly to implement its provisions into regulation. A new field of membership manual was issued that tracks the legislation and enables credit unions to serve millions of their existing members while adding new members within a framework of safety and soundness. Other significant regulatory proposals resulting from HR 1151 were issued dealing with member business lending, accounting and auditing standards, and a request for advance comments on "prompt corrective action" proposals.

Significant progress regarding Year 2000 compliance issues was made in 1998. With the next millennium only months away, this issue continues to demand increased emphasis and resources from NCUA and the credit union industry. Our nation's credit unions are well on the way to full compliance and will be ready to provide uninterrupted service to their members at the beginning of the year 2000.

Our goal at NCUA is to provide a regulatory environment that promotes safe, sound and viable credit unions. All signs indicate that we are accomplishing that goal quite successfully. However, in our changing world we cannot afford to be complacent; therefore, NCUA will continue its efforts throughout 1999 toward both innovation and stability for the agency, the credit unions we oversee, and the millions of Americans who benefit from credit union service everyday.

Administration

Operating Overview from the Executive Director

During 1998, NCUA's Office of the Executive Director focused primarily on four objectives:

- Stabilizing NCUA's examiner recruitment and retention;
- Increasing the agency's emphasis on providing additional assistance to small credit unions;
- Improving customer service; and
- Focusing agency systems and processes to meet the demands of HR 1151 and Year 2000.

Stabilizing Examiner Recruitment and Retention

NCUA's hiring authority was restored by the Office of Personnel Management (OPM) August 1, 1998—less than a year after it was suspended. NCUA worked closely with OPM's Employment Services to correct erroneous practices and implement processes to prevent future problems. To help build and retain a qualified staff, the agency adopted an active recruitment effort and the NCUA Board raised salaries and approved a signing bonus for new examiner hires.

Providing Additional Assistance to Small Credit Unions

During 1998, NCUA held several local workshops to provide knowledge and information to assist small credit unions enhance service to the underserved. The response from these conferences was overwhelming and more are scheduled for 1999.

Carolyn Jordan
Executive Director

NCUA's Community Development Revolving Loan Program continues to provide below-market loans and offer technical assistance grants to qualifying low-income credit unions. Congress added $2 million to the program in 1998 — $4 million has been added to the program in the last three years.

Improving Customer Service

In support of Vice President Al Gore's initiative to provide America with a more responsive government, the agency kicked off *NCUA's Conversations with America* last fall. This program posts on our web site and in the NCUA newsletter upcoming opportunities — town meetings, league and trade meetings and other public forums — where our audience can speak directly to an agency board member or official.

Administration

NCUA sent its first Annual Performance Plan to Congress last year. As a part of the *Government Performance and Results Act*, the plan is designed to establish connections between long term strategic goals and NCUA's day-to-day activities.

Last October, the NCUA Board voted to return a 4.125 percent, $118 million dividend to credit unions—the fourth consecutive and largest dividend paid by the NCUSIF. The Board also waived the 1999 insurance premium.

Focusing the Agency to Meet the Demands of HR 1151 and Y2K

Preparing for Year 2000 placed numerous demands on Agency resources in 1998. NCUA examiners contacted each federal credit union to investigate Y2K readiness. In addition, NCUA and state supervisors coordinated the readiness of federally insured state-chartered credit unions. I am happy to report that at year-end, all seven of NCUA's internal mission-critical systems were fully Y2K ready. Furthermore, the vast majority—10,460 or 94.1% of federally-insured credit unions— are making satisfactory progress. NCUA is monitoring the efforts of the 547 credit unions that received "unsatisfactory" or "needs improvement" ratings to ensure full compliance is reached well before December 31, 1999.

Responding quickly after the President signed the *Credit Union Membership Access Act* on August 7, the NCUA Board approved a new chartering and membership expansion rule on December 17, 1998.

Legislation

Congress Settles Battle Over Expansions

Congress moved quickly in 1998 to enact historic legislation to restore access to federal credit unions after the Supreme Court ruled February 25, 1998, that the existing statute didn't support multiple fields of membership.

Fourteen days later, on March 11, the House Banking Committee held hearings on the NCUA field of membership policy. Chairman Norman E. D'Amours was joined by members of Congress, the Treasury Department and credit union representatives in testifying at the day-long hearing.

"I urge the quick enactment of H.R. 1151 to allow consumers the freedom to choose credit union service," Chairman D'Amours told the Committee. "The (Supreme Court's) ruling limits access to credit unions for employees of small businesses and low-income people. Over 50 percent of the private-sector workforce is employed by small businesses and 99.7 percent of these businesses employ fewer than 500 people. Without the multiple group policy, more than half the workers in the country lack the ability to access federal credit union service," he said.

On April 1, 1998, the House passed H.R. 1151, the *Credit Union Membership Access Act*, by an overwhelming majority of 411-8.

Meanwhile, the Senate Banking Committee held hearings on credit union expansion March 26 and April 2. The entire NCUA Board appeared before the Committee. Several months elapsed before the Senate passed, by 92-6, its expanded version of H.R. 1151 on July 28. The House approved the Senate version on August 4.

President Bill Clinton rapidly signed the *Credit Union Membership Access Act* (Public Law 105-219) into law August 7, 1998, with NCUA's entire Board in attendance.

NCUA then issued a comprehensive proposal, on August 31, covering the field of membership section of the new statute. Finalized December 17, 1998, the new policy allowing federal credit unions to charter and expand to serve multiple groups became effective January 1, 1999.

Revolving Loan Fund Boosted

Congress added $2 million to NCUA's Community Development Revolving Loan Fund in the VA-HUD Appropriations Bill for fiscal 1998. This marks the third consecutive year that Congress provided additional funding to the Revolving Loan Program.

Examination Authority and Liability Protection

To help NCUA ensure that credit unions remain safe and sound while meeting Year 2000 computer challenges, Congress

passed Public Law 105-164 on March 20, 1998. This new law allows NCUA to examine information systems vendors that serve credit unions to ensure they are Y2K ready.

Chairman D'Amours told House Banking Committee members in testimony September 17, 1998, that credit union Y2K computer conversions were progressing well and that NCUA was on track or ahead of schedule in completing its internal computer systems upgrades.

The Chairman was testifying in support of a bill offering companies protection from liability when they disclose Y2K information. The bill became Public Law 105-271.

Private Mortgage Insurance

Effective July 29, 1999, Public Law 105-216 requires that lenders provide annual mortgage disclosures that notify borrowers of their right to request cancellation of private mortgage insurance (PMI) when the borrower's equity in their property reaches 20 percent. Lenders must automatically cancel PMI at the midway point of mortgage repayment if payments are current.

Expected Legislation

The 105th Congress ended December 30, 1998, without finalizing the controversial financial services modernization bills that neared approval, the regulatory relief bills, and the bankruptcy reform legislation that seemed assured of passage. It is expected that leading members of Congress will lose no time in introducing similar legislation during the first session of the 106th Congress.

Supervision

Examination and Insurance

Preparing for Y2K and Implementing New Legislation

A significant portion of agency resources in 1998 was devoted to assuring that credit unions are prepared for the century date change. NCUA closely monitored federal credit unions and the vendors who serve them to ensure that computer systems are ready, and that liquidity provisions are in place for the transition period.

As part of our Y2K program, NCUA reviewed the progress of credit unions through targeted Y2K assessments, special quarterly reporting, and the normal examination and supervision program. To review Y2K progress, NCUA also visited 30 of the larger information system vendors used by the majority of federal credit unions.

Examination Program Extended

To provide adequate staffing resources for Y2K oversight, the agency implemented a 1998 examination program extending the usual annual examination cycle up to 18 months for large, over $50 million, well run credit unions. This short- term deferral reduced some burden while providing the resources needed to attend to Y2K oversight without demanding additional staff.

Credit Unions Proceed Well With Y2K

Credit unions are moving successfully through the renovation, testing and implementation phases of the Y2K project. Established milestone dates ensure that adequate progress is made. The milestone dates for substantial completion of renovation and testing critical systems were successfully met by the overwhelming majority of credit unions in 1998. The next milestone date of June 30, 1999, is when final testing should be completed and July 31, 1999, is the deadline for implementation.

Credit unions not progressing through the milestone phases receive specialized attention. In some cases, deadlines were waived or extended and administrative actions were issued with appropriate justification. At the end of 1998, 287 waivers had been issued and only 54 formal actions related to Y2K progress were in force. NCUA is pleased with this small number and we continue to work closely with credit unions that need additional help.

Meeting Liquidity Needs

NCUA believes credit unions will be well positioned for the Y2K date conversion and that confidence will remain strong among credit unions members.

Supervision

We encourage credit unions to take every opportunity to educate and reassure their members. However, the possibility exists that credit unions may experience extraordinary liquidity demands and NCUA is working with the industry, the Congress and the Federal Reserve to ensure that adequate liquidity provisions are in place.

New Regulatory Changes

The passage of HR 1151, *The Credit Union Membership Access Act* (CUMAA), makes challenging demands. Major supervisory and regulatory projects resulting from the legislation are:

- Completed new chartering and field of membership policy;
- Issued an interim supervisory committee audit regulation;
- Issued a proposed business lending regulation;
- Issued advance notice of a prompt corrective action proposal;
- Began revising the *Call Report* to conform to Generally Accepted Accounting Principles.

An upcoming challenge will be implementing the prompt corrective action requirements within CUMAA. The new law addresses credit union capital levels, separate risk-based capital standards for complex credit unions that engage in high-risk activities, separate rules for credit unions in operation less than ten years, with under $10 million in assets, and policy requirements for undercapitalized credit unions.

Litigation, Regulation and Enforcement

Supreme Court Decision Leads to Congressional Action

Chapter 1 of NCUA's long court battle to vindicate its multiple group chartering policies effectively ended on February 25, 1998, when the Supreme Court issued its decision in the case of *NCUA vs. First National Bank and Trust Co.* In a 5-4 decision, the Court ruled that banks have legal standing to challenge NCUA's field of membership rules and that the *Federal Credit Union Act* required that the same common bond must unite all members of an occupationally-based federal credit union.

After Congress restored multiple-group chartering authority by enacting the *Credit Union Membership Access Act* of 1998, NCUA's litigation staff worked with the Department of Justice to obtain dismissal of the *First National* case and all other pending federal cases challenging the Agency's multiple group chartering decisions.

Office of General Counsel staff then spent the latter part of 1998 working with other NCUA offices to develop new chartering policies as well as writing rules for other provisions of the new Act. Not surprisingly, at this writing, the banking industry has challenged the new chartering policies and we are joined in Chapter 2 of the courtroom struggle.

Major Regulatory Changes

Other important business of the Office of General Counsel continued apace during 1998. Major regulatory improvements undertaken included—

- proposed comprehensive revision of standard federal credit union bylaws,
- proposed rules on leasing and statutory liens, and
- proposed amendments addressing problems with investments in credit union service organizations.

Enforcement Actions

NCUA continued to use its supervisory enforcement tools in appropriate cases to deal with abuses in insured credit unions. During 1998, the agency issued –

- 54 prohibition orders against current or former credit union officials or employees;
- 15 cease and desist orders against credit unions or officials; and
- 3 civil money penalties were assessed.

Judicious use of enforcement powers remedies specific wrongdoing and serves as a powerful deterrent against future wrongdoing.

Community Development Credit Unions

Low-Income & Community Development Credit Unions

Proactive Visibility and Service

The Office of Community Development Credit Unions (OCDCU), working in conjunction with credit union trade groups and other governmental agencies, sustained its pro-active efforts to increase the visibility and relevance of low-income credit unions in the financial marketplace. NCUA continued its support of small and low-income designated credit unions through the Small Credit Union Programs and the economic development specialists in each regional office.

Recognizing the need to assist a growing number of small credit unions with Y2K compliance issues, the Community Development Revolving Loan Program (CDRLP) authorized the use of as much as $200,000 in accumulated earnings to meet credit union needs. If necessary, a similar authorization will be extended in 1999.

In November 1998, Congress demonstrated its continuing support of the CDRLP by authorizing an additional $2 million for the Fund. These funds will provide for the expansion of the program in fiscal year 1999.

Revolving Loan Program

The CDRLP continues to be a source of low interest loans and free technical assistance grants to low-income designated credit unions. During 1998, the program granted 17 loans totaling $2.9 million. There were 77 loans outstanding at year-end totaling $[illegible],834,581.

Financed with earnings from the Revolving Loan Program, the technical assistance grants program provides operational dollars for training, marketing, audits and the purchase of equipment in 1998. Overall, the technical assistance program received requests totaling $854,304. There were 44 grants totaling $205,290 awarded for computer upgrades to help credit unions become Y2K compliant.

College Student Internship Program

The 1998 Summer Student Internship Program was the agency's most successful to date. This program creates partnerships between low-income designated and larger credit unions for the purpose of training and developing business majors as potential credit union managers.

Through technical assistance stipends, the 1998 program saw 14 college interns matched with some 26 different credit unions over the summer months. The total granted for stipends in 1998 was $25,167. That compares with 1997, when seven interns were accepted into the pilot program and stipends totaled $17,500. These interns were given the opportunity to work in all phases of credit union operations, including customer service, marketing, bookkeeping, and a variety of other administrative and managerial tasks.

In 1999, we anticipate expanding the program by targeting participation from no fewer than 50 credit unions (25 low-income designated and 25 partner credit unions). In the first two years, participants were selected from the ranks of college juniors and seniors. However, in 1999 we plan to accept second-year community college/technical school students, as well.

Community Development Credit Unions

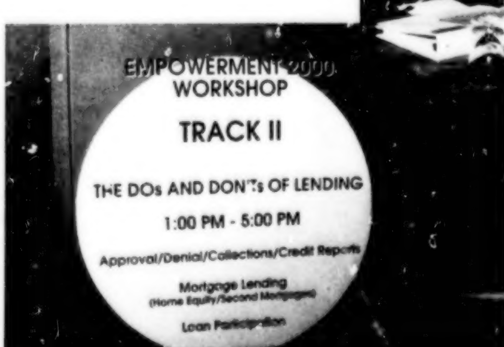
Empowerment: 2000 Workshops

In the fall of 1998, the Office of Community Development Credit Unions sponsored a series of workshops aimed at providing small credit unions with information and training to improve their operations.

The weekend workshop sessions were held in St. Louis, Mo., Phoenix, Ariz., and Miami, Fla., beginning October 23 through November 8, 1998. Each session began Friday night with a town meeting where Chairman D'Amours and the local NCUA regional director hosted spirited discussions on a variety of topics important to small credit unions. On Saturday and Sunday, credit union officials selected sessions from a packed agenda of timely issues, including: Analyzing Financial Statements, Strategic and Business Planning, The "Dos and Don'ts" of Lending, Investments and Asset Liability Management, Year 2000 Computer Challenges, Chartering and Field of Membership Requirements, and Cultivating a Board of Directors.

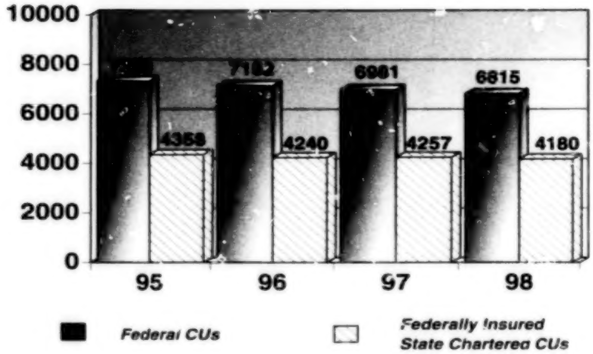
Attendees generally said that the greatest benefit of the workshops was the opportunity to network and talk to people just like themselves about common problems while getting valuable information regarding workable solutions. Scholarship funds donated by the credit union community that were left over from the 1996 "Serving the Underserved" Conference were used to provide scholarships to 126 credit unions with assets below $5 million.

Over 300 people attended, both national and international, including participants from 207 credit unions.

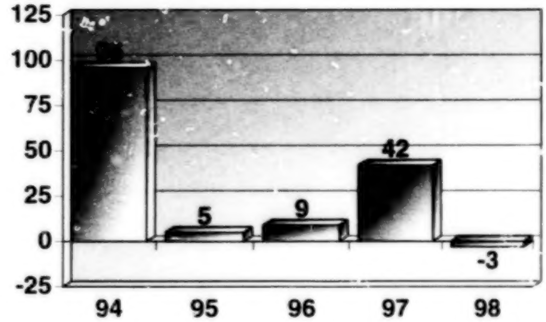


Insured Credit Union Activity

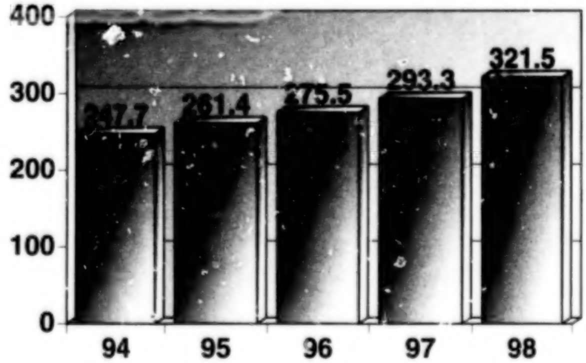
Number of Federally Insured CUs
December 31



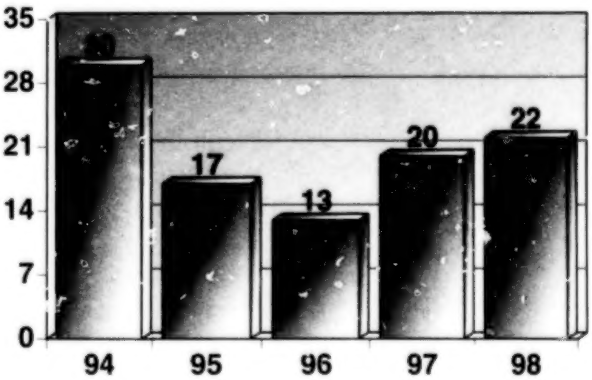
Net Conversions to Federal Insurance
Fiscal Year



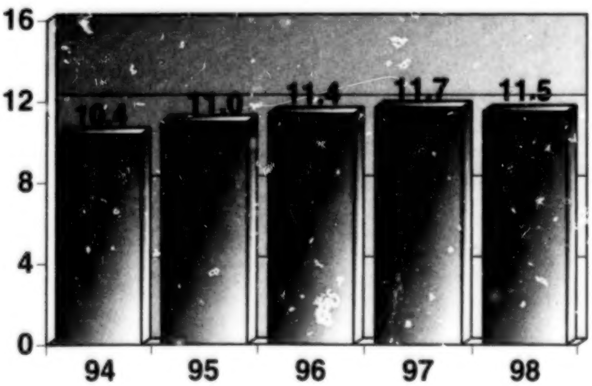
Total Insured Shares
December 31 (in Billions of Dollars)



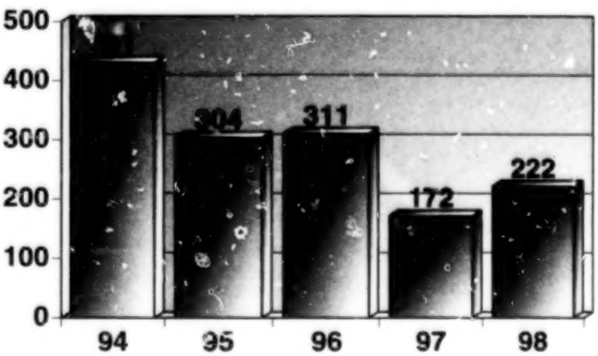
Total Liquidations
Fiscal Year



Credit Union Capital Ratio
December 31 (by Percent)



Total Mergers
Fiscal Year



Insured Credit Union Activity

INSURED SHARE GROWTH IN FEDERALLY INSURED CREDIT UNIONS (IN MILLIONS)

	SHARES OUTSTANDING			
DECEMBER 31	FEDERAL CREDIT UNIONS	STATE CREDIT UNIONS	TOTAL	PERCENTAGE CHANGE FROM PRIOR YEAR TOTAL SHARES
1988	$104,431	$55,217	$159,648	9.1%
1989	109,653	57,518	167,171	4.7%
1990	117,881	62,082	179,963	7.7%
1991	127,316	72,467	199,783	11.0%
1992	142,139	87,386	229,525	14.9%
1993	149,229	91,101	240,330	4.7%
1994	155,480	92,173	247,653	3.0%
1995	164,582	96,856	261,438	5.6%
1996	173,544	101,914	275,458	5.3%
1997	178,948	114,327	293,275	6.5%
1998	191,328	130,129	321,457	9.6%

CHANGES IN FEDERALLY INSURED CREDIT UNIONS FISCAL YEAR 1998

	FEDERAL CREDIT UNIONS	FEDERALLY INSURED STATE CREDIT UNIONS	TOTAL
Number January 1, 1998	6,981	4,257	11,238
Additions:			
New federal charters	5		5
New state charters		3	3
Conversions	3 (FISCU to FCU 3) (NFICU to FCU 0)	51 (FCU to FISCU 41) (NFICU to FISCU 10)	54
Subtractions:			
Mergers:			
Assisted	(3)	(2)	(5)
Voluntary	(107)	(110)	(217)
Mergers in process		(3)	(3)
Liquidations:			
Voluntary	(7)	(3)	(10)
Involuntary	(8)	(4)	(12)
Liquidations in process	(1)		(1)
Conversions	(48) (FCU to FISCU 41) (FCU to NFICU 4) (FCU to NON-CU 3)	(9) (FISCU to FCU 3) (FISCU to NFICU 6)	(57)
Number, December 31, 1998	6,815	4,180	10,995
Net Change	(166)	(77)	(243)

FCU = Federal Credit Union
FISCU = Federally insured State-Chartered Credit Union
NFICU = Privately insured State-Chartered Credit Union

Share Insurance Fund

High Earnings and Low Losses Insure Dividend

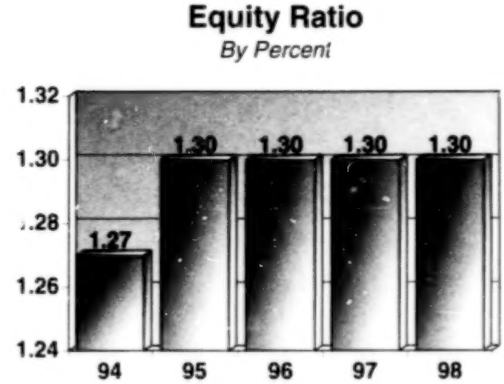
$118 Million Returned to Credit Unions

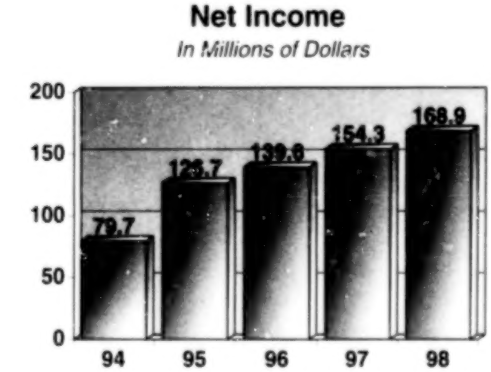
The National Credit Union Share Insurance Fund (NCUSIF) continues to out perform year after year. In 1998, the NCUSIF paid its fourth consecutive cash dividend to all federally insured credit unions. After issuing the $118 million dividend, the Fund still ended the year at the statutory maximum 1.3 percent equity level.

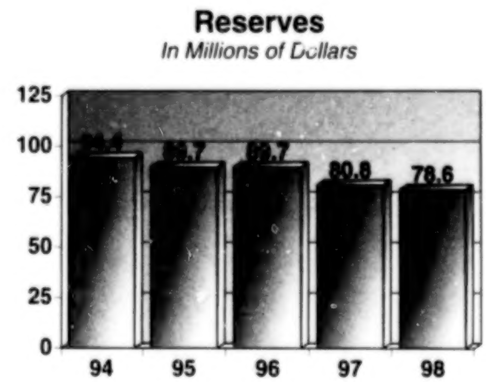
1998 marked the fifth time in the Fund's history that a dividend was issued and added another year to the many successive years it has been unnecessary for credit unions to pay a premium to the Fund. The ability to pay a fourth consecutive cash dividend can be attributed to the overall good health of insured credit unions, competent management, a robust economy, and the financial soundness of the NCUSIF.

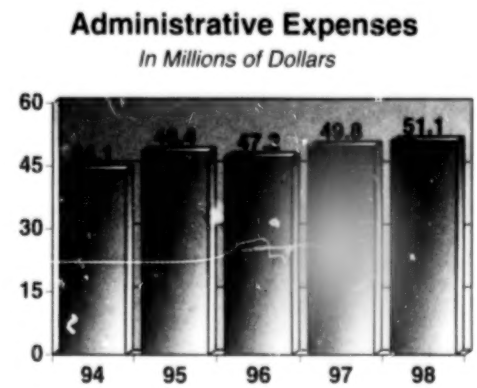
Record Earnings Posted

The Fund had record earnings of $220 million before expenses in 1998. Most earnings









Share Insurance Fund

were derived from the Fund's $3.8 billion investment portfolio. It is entirely comprised of U.S. Treasury securities with maturities of three years or less. Operating costs of $51.1 million were $1.3 million greater than in 1997, and net income reached an historic high of $168.9 million.

Losses are Low, Additional Reserves Unnecessary

When 1998 ended, the Share Insurance Fund had $78.6 million in reserves set aside for insurance losses. This is the fourth consecutive year that no losses were recorded because previously established reserves were more than sufficient to cover all insurance charges.

Following generally accepted accounting principles (GAAP), insurance losses are incurred when loss reserves are established for institutions the Agency considers to be of greatest risk to the NCUSIF. Most of these credit unions are classified as CAMEL code 4 or 5 institutions.

Eighteen credit unions failed in 1998, resulting in reserve charges of $3.6 million – five were merged with assistance and

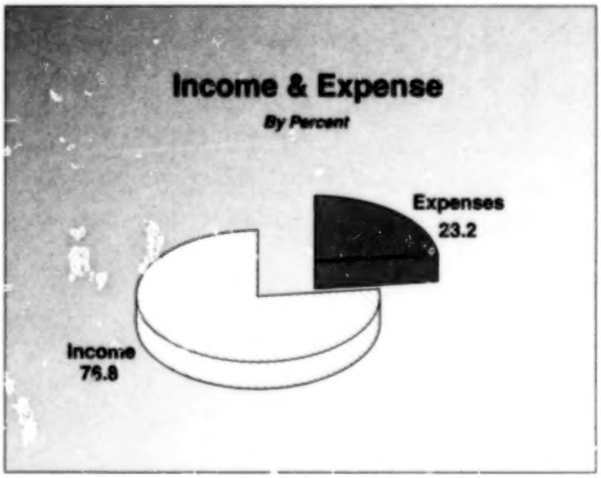
ADMINISTRATIVE COSTS
(IN THOUSANDS)

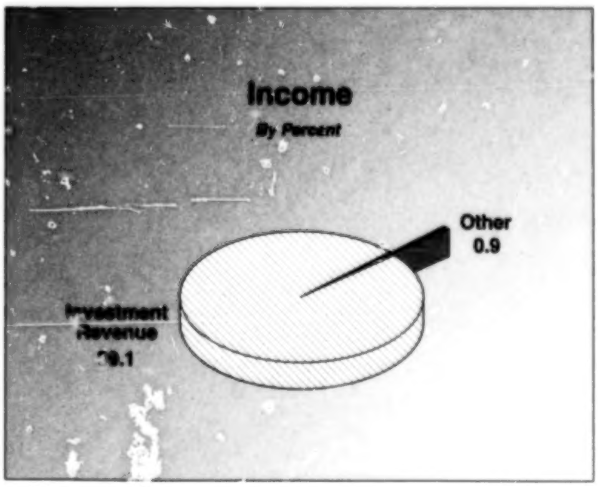
FISCAL YEAR	1996	1997	1998
Direct expenses	$1,136	$1,160	$778
Allocated expenses	46,085	48,607	50,293
Total administrative expenses	$47,221	$49,767	$51,071
Percent of NCUA total administrative expenses	51.2%	51.2%	50.4%

RESERVES FOR ESTIMATED LOSSES
(IN THOUSANDS)

FISCAL YEAR	1996	1997	1998
Reserves—beginning of fiscal year	$89,672	$89,667	$80,775
Net charges for fiscal year	(5)	(8,892)	(2,149)
Provision for insurance losses	0	0	0
Reserves—end of fiscal year	$89,667	$80,775	$78,626

* Includes transition quarter of Oct. 1 - Dec. 31.





Share Insurance Fund

13 were liquidated. Two credit unions were placed into conservatorship in 1998.

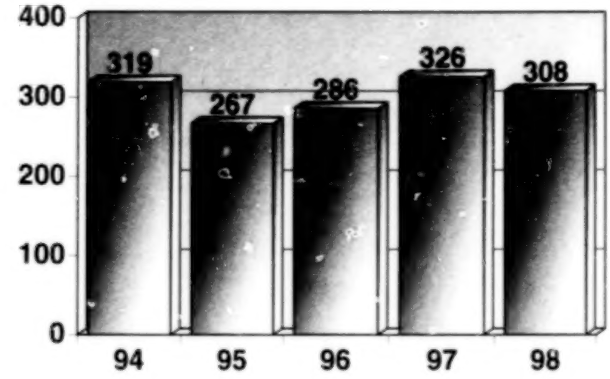
The 308 problem coded credit unions at year end reflected little change from the 326 operating at the beginning of the year. Insured shares in these credit unions totaled $3.2 billion, or just over 1 percent of total insured shares. The total insured shares of credit unions grew at a modest rate of 9.6 percent to $321.5 billion during the year.

Legislation Requires Electronic Payments

The *Debt Collection Improvement Act of 1996* required that NCUA make payments electronically to credit unions and all other vendors after January 1, 1999. To ensure compliance, NCUA made a concerted effort in 1998 to secure authorization agreements for EFT payments from all federally insured credit unions. At year-end 1998, NCUA had collected 92 percent of the agreements. Of those received, 84 percent had been processed and pre-tests were underway.

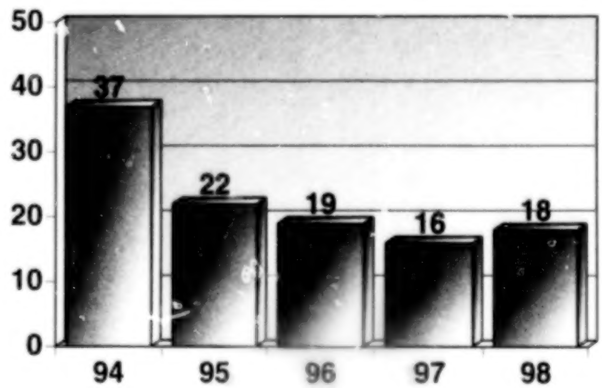
Number of Problem Credit Unions

Camel Codes 4 & 5



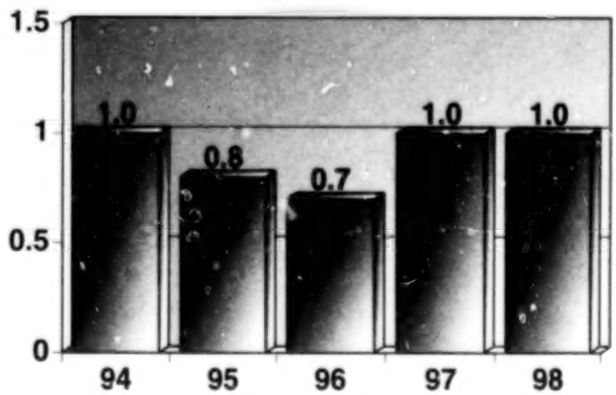
Involuntary Liquidations & Assisted Mergers

Number of Cases



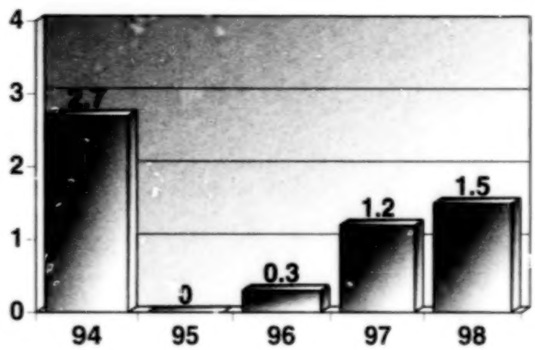
Percentage of Problem Shares to Total Insured Shares

By Percent

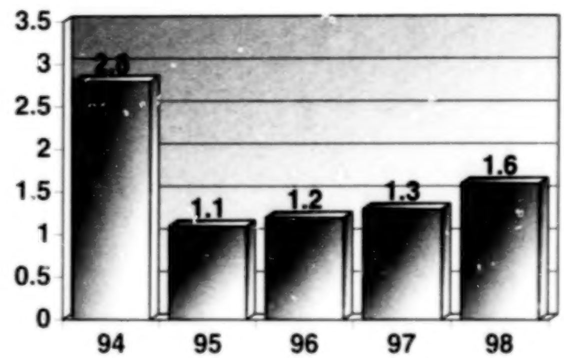


Share Insurance Fund

Cash Assistance Outstanding
In Millions of Dollars



Non-Cash Assistance Outstanding
In Millions of Dollars



Clean Audit Opinion

The NCUSIF financial statements received a 14th consecutive unqualified audit opinion from independent auditors. The Deloitte & Touche LLP report on the audited 1998 financial statements and accompanying footnotes appear later in this report.

The NCUSIF continues to be the only federal deposit insurance fund that has its financial statements audited annually by an independent accounting firm in addition to the General Accounting Office.

PERCENTAGE OF SHARES BY CAMEL CATEGORY

CATEGORY	1995	1996	1997	1998
Code 1 & 2	90.1%	92.9%	92.7%	90.2%
Code 3	9.2	6.7	6.3	8.9
Code 4	0.9	.4	1.0	.9
Code 5	0.0	0.0	0.0	0.0
Totals	**100.0%**	**100.0%**	**100%**	**100%**

SUMMARY OF CAMEL CODE 4 & 5 CREDIT UNIONS

Fiscal Year	1995	1996	1997	1998
Number of Code 4 & 5 credit unions	267	286	326	308
Percentage of insured credit unions	2.3%	2.5%	2.9%	2.8%
Shares in Code 4 & 5 credit unions	$2.1b	$1.8b	$2.9b	$3.2b
Percentage of NCUSIF natural person insured shares	.80%	.65%	.95%	.99%

Corporate Credit Unions

New Regulation & Guide Coupled with Enhanced Supervision

There were a number of significant milestones throughout the year that will enhance the examination and supervision efforts of the Office of Corporate Credit Unions (OCCU). The regulatory environment and staffing level created in 1998 will allow OCCU to focus on risk that is unique to corporate credit unions as we move toward the new millennium.

Regulation Considers Risk Level

On May 1, 1998, the revised Part 704 of *NCUA's Rules and Regulations* became effective. The regulation is intended to allow corporate credit unions to meet the needs of their members while maintaining appropriate levels of risk. Much of the year was dedicated to working with corporate credit unions that chose to apply for one or more of the expanded authority levels provided under the regulation. By year end, initial action had been taken on all expanded authority requests.

Staff Increased

The agency's commitment to the efforts of OCCU were highlighted by the increase in staff and training. Several new positions were created that are comparable to positions in other financial regulatory agencies. Additionally, two new specialist positions were created to address operations specific to corporates. The largest and most complex corporate credit unions will have a resident examiner staff on-site to maximize supervisory efforts.

Rating System Refined

A new rating system for corporate credit unions was adopted in 1998 and will be fully implemented in 1999. The Corporate Risk Information System (CRIS) provides an analysis process and structure not possible under the CAMEL rating system. Under CRIS, examiner and corporate staff are provided with a more detailed and accurate profile of the various risk levels to which the corporate is exposed. The risk measurements available under CRIS are consistent with the regulatory requirements set forth in Part 704.

Guide Revised

For the first time in several years, the *Corporate Examiner's Guide* was fully revised. The guide is a comprehensive source of information for examiners, corporate credit union staff, and other interested parties. It provides contemporary information on investments and corporate products and services. Explicit regulatory requirements and a detailed description of the CRIS process are included.

Y2K Monitoring

OCCU has committed significant time and resources to the Y2K readiness of corporate credit unions. Due to the vital services that corporates provide to their members, it is imperative to the credit union system that each corporate is fully prepared for the challenges Y2K will bring. Every corporate credit union received a Y2K examination in 1998. Follow-up Y2K examinations will be conducted in early 1999, and monitoring will continue as needed to ensure this issue is adequately addressed.

Corporate Credit Unions

Federal Corporate Credit Unions
December 31, 1998

Corporate Name	City, State	Assets (in millions)
Eastern Corporate	Woburn, Massachusetts	1,081,571,463
Empire Corporate	Albany, New York	2,982,993,564
Indiana Corporate	Indianapolis, Indiana	1,070,947,006
Kentucky Corporate	Louisville, Kentucky	293,096,482
LICU Corporate	Endicott, New York	5,853,777
Mid-Atlantic Corporate	Harrisburg, Pennsylvania	2,017,354,892
Mid-States Corporate	Naperville, Illinois	2,243,397,153
Nebraska Corporate	Omaha, Nebraska	135,214,622
Pacific Corporate	Honolulu, Hawaii	263,668,656
South Dakota Corporate	Sioux Falls, South Dakota	74,516,141
Southeast Corporate	Tallahassee, Florida	2,335,111,016
Southwest Corporate	Dallas, Texas	3,951,307,854
Tricorp Corporate	Westbrook, Maine	372,988,819
Virginia League Corporate	Lynchburg, Virginia	741,247,770
Western Corporate	San Dimas, California	11,401,939,320
Total		**$ 28,971,208,535**

Federally Insured State Corporate Credit Unions
December 31, 1998

Corporate Name	City, State	Assets (in millions)
Alabama Corporate	Birmingham, Alabama	$589,973,429
Arizona Corporate	Phoenix, Arizona	738,433,613
Central Credit Union Fund	Auburn, Massachusetts	225,929,087
Central Corporate	Southfield, Michigan	2,263,923,138
Constitution State	Wallingford, Connecticut	904,783,616
Corporate Central	Salt Lake City, Utah	376,831,936
Corporate One	Columbus, Ohio	1,204,439,662
First Carolina Corporate	Greensboro, North Carolina	864,428,287
Georgia Central	Duluth, Georgia	822,183,054
Iowa League Corporate	Des Moines, Iowa	342,728,797
Kansas Corporate	Wichita, Kansas	329,128,160
Louisiana Corporate	Metairie, Louisiana	118,715,339
* Minnesota Corporate	St. Paul, Minnesota	651,992,723
Northwest Corporate	Beaverton, Oregon	708,861,806
System United Corporate	Arvada, Colorado	1,123,900,206
Volunteer Corporate	Brentwood, Tennessee	614,549,417
Washington Corporate	Tukwila, Washington	236,714,928
West Virginia Corporate	Parkersburg, West Virginia	187,501,803
Total		**$12,305,019,001**

* Minnesota Corporate Converted to a Federal Charter Effective January 4, 1999.

Corporate Credit Unions

NonFederally Insured Corporate Credit Unions
December 31, 1998

Corporate Name	City, State	Assets (in millions)
Missouri Corporate	St. Louis, Missouri	768,754,991
North Dakota Corporate	Bismarck, North Dakota	147,318,840
Treasure State Corporate	Helena, Montana	177,403,637
Wisconsin Corporate	Hales Corners, Wisconsin	1,167,337,901
Total		**$ 2,260,815,369**
Total for All Corporates		**$ 43,537,042,905**
(Excluding U.S. Central)		
U.S. Central Credit Union		$ 25,708,527,320

KEY STATISTICS ON FEDERALLY INSURED CORPORATE CREDIT UNIONS DECEMBER 31, 1998 (IN MILLIONS)

	1996	1997	1998
Number:	36	35	34
Assets:	$28,386.5	$31,550.1	$41,276.2
Loans:	315.7	289.9	120.4
Shares:	22,742.2	25,477.4	36,755.9
Reserves:	2,026.6	2,088.5	2,363.7*
Undivided earnings:	312.8	393.1	454.5
Gross income:	1,745.3	1,756.4	2,120.8
Operating expenses:	128.5	136.7	156.7
Interest on borrowed funds:	153.0	143.8	103.2
Dividends and interest:	1,375.8	1,425.2	1,756.6
Reserve transfers:	8.2	5.4	19.6
Net income:	73.7	45.6	84.6

Dollar amounts do not include U.S. Central
*Includes Membership Capital Share Deposits

SIGNIFICANT RATIOS

	1996	1997	1998
Reserves to assets:	7.1	6.6	5.7*
Reserves and undivided earnings to assets	8.2	7.9	6.8*
Operating expenses to gross income:	7.3	7.7	7.4
Yield on assets:	6.2	5.7	5.1
Cost of funds to assets:	5.4	5.0	4.5
Gross spread:	.8	.7	.6

Ratios do not include U.S. Central
*Includes Membership Capital Accounts and Paid-in Capital

Asset Management and Assistance Center

Services in High Demand

The Asset Management & Assistance Center (AMAC) has recovered in excess of $467.5 million at a historic cost to recovery ratio of 13.5 percent since liquidation activity was combined in the AMAC in 1990.

In 1998, liquidation activity continued to reflect the favorable condition of credit unions overall. AMAC handled seven involuntary credit union liquidations, portions of six purchase and assumptions, and two voluntary liquidations. At the end of the year, 62 credit unions remained in the process of liquidation.

Liquidation Factors

Three of the seven 1998 liquidations resulted from fraud. These three cases, plus a large fraud case existing from late 1997, produced much of the AMAC's liquidation work for 1998. Liquidations involving fraud are time consuming. Share payout, which is normally completed within hours, must be delayed in fraud cases until accounts are confirmed, researched, and reconstructed. Reconstruction is necessary for an accurate share payout and to assist in the potential recovery from the surety bond.

Work Goes Beyond Liquidations

AMAC's workload is considerably broader than liquidations and recoveries on assets. AMAC staff has expended significant resources on non-liquidation matters in each NCUA region. During 1998, AMAC provided in excess of 95 weeks of assistance to regional staff by:

- reviewing three large complex loan portfolios;
- consulting with, or managing three credit union conservatorships;
- negotiating a regional office lease;
- reconstructing records at six credit unions; and
- reviewing actual or potential bond claims.

Starting in 1996, AMAC commenced servicing consumer loans internally. This internal collection program was expanded in 1998 in an effort to control costs and deal directly with borrowers from credit unions liquidated because of fraud. The resources needed to collect these loans depends upon the cause of liquidation. Some portfolios require minimal effort to collect while others require legal action. Experience has shown that internal servicing combined with outside collection efforts lowers overall collection costs. AMAC is currently servicing 2,700 loans with an outstanding balance of $14.8 million. During 1998, AMAC recovered $2.8 million on loans serviced by AMAC staff at a favorable cost to recovery ratio of 9.1 percent. In addition, as a result of absorbing more work internally, AMAC was able to negotiate a lower fee from the outside servicer.

1999 will present new challenges as the AMAC works with credit unions that have Y2K problems, acquires a new liquidation computer system, and provides consulting services to the regions.

Central Liquidity Facility

Credit Union's Backup Liquidity Source

The Central Liquidity Facility (CLF) was created by Congress in 1979 to provide a backup liquidity source to meet the unique needs and requirements of the credit union system. The CLF is a mixed-ownership government corporation, funded by member credit unions, and operated under the direction of the NCUA Board.

Credit unions access the CLF either through corporate credit unions, which serve as agents of the CLF, or by joining the CLF directly as regular members. Agent and regular members must purchase capital stock in the CLF as a condition of membership.

Changes Improve Operations

The CLF instated several important changes in 1998 designed to improve its operations and better serve its member credit unions.

- Year 2000 (Y2K) testing was successfully completed. CLF's computer systems are Y2K ready.
- Regular member and agent member security agreements were revised to incorporate an amendment change to the CLF regulation regarding loan collateral (§ 725.19).
- Credit unions that wish to borrow from the CLF can now either pledge specific assets as collateral or continue to borrow under a blanket lien agreement for loan security.
- Staffing changes approved for the CLF add a part-time vice president and a part-time analyst.

Meeting Y2K Needs

Credit union funding needs may increase in the months surrounding the upcoming century date change. This could occur as a result of unusually large cash withdraws by credit union members who feel it is an appropriate precautionary measure. We have, and will continue to encourage credit unions to communicate with and reassure members that their credit union is preparing for Y2K, while simultaneously developing adequate contingency plans to address funding needs. For its part, the CLF has been working with the Congress and the Federal Reserve to ensure that the CLF can meet any reasonable liquidity needs of the credit union movement.

Funding CLF Operations

The CLF funds its operating costs with a portion of the earnings on investments of member stock deposits. During 1998, the CLF returned 99.9 percent of its investment earnings as dividends to its members. The dividends averaged 5.177 percent for the year.

During 1998, credit unions continued a long-term trend of remaining extremely liquid and predictably, the CLF was not called upon to grant any loans

The CLF again received an unqualified audit opinion from its independent auditors.

Operating Fund

How NCUA is Financed

NCUA operating costs are shared by the Operating Fund and the National Credit Union Share Insurance Fund (NCUSIF). Each month an accounting procedure transfers funds from the NCUSIF to the Operating Fund to finance agency operations.

An in-depth 1997 study of examination time found that examiners spend approximately 50 percent of their time completing insurance related functions. As a result, the NCUA Board approved a 50 percent transfer rate for a three-year period beginning in 1998. The overhead transfer rate is scheduled to be reviewed again in 2000; however, the Board retains the right to revisit the transfer allocation on an annual basis.

The remaining 50 percent of operating costs are funded primarily from annual operating fees paid by federal credit unions. Lesser amounts of funding come from the sale of NCUA publications and interest income on Treasury investments.

Fee Assessments

The operating fee assessment is calculated by applying the annually-adjusted assessment rate scale to the previous December 31 assets of individual federal credit unions. The 1998 fee was increased by 9.25 percent. This was the first increase since 1991. Between 1994 and 1997, federal credit union operating fee assessments were reduced by 22.7 percent.

Fund Revenue and Expected Losses Unfounded

NCUA Operating Fund revenue totaled $52.2 million in fiscal year 1998 — $50.6 million from operating fees and the balance from interest and other income. Operating expenses totaled $50.3 million in 1998, which was $4.4 million under the budgeted amount of $54.7 million. Most of the budget surplus was a result of the high number of vacancies that existed throughout much of 1998.

The 1998 budget projections forecasted a net loss to the Operating Fund of over $2 million. However, because of savings incurred from vacant staff positions, the Operating Fund actually gained $2 million in 1998. As a result, at the end of the year the Fund Balance was $8.1 million.

Deloitte & Touche LLP Auditors' Report

For the 14th consecutive year, independent auditors rendered an unqualified opinion on NCUA's financial statements. The auditors' report and the comparative financial statements for the Operating Fund, the Share Insurance Fund, and the Central Liquidity Facility for fiscal years 1997 and 1998 follow.

Deloitte & Touche LLP

1900 M Street NW
Washington, DC 20036-3564
Telephone: (202) 955-4000
Facsimile: (202) 955-4294

INDEPENDENT AUDITORS' REPORT

To the Inspector General of the
National Credit Union Administration:

We have audited the financial statements appearing on pages 28-47 of this Annual Report of respectively, the National Credit Union Administration Share Insurance Fund, Operating Fund, and Central Liquidity Facility (collectively, the "funds") as of and for the years ended December 31, 1998 and 1997. These financial statements are the responsibility of the National Credit Union Administration's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating all overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund, of the Share Insurance Fund, and of the Central Liquidity Facility at December 31, 1998 and 1997, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued reports dated February 26, 1999, not presented herein, on our tests of the funds' compliance with certain provisions of laws, regulations, contracts and grants, and our consideration of their internal control over financial reporting.

Deloitte & Touche LLP

February 26, 1999

Deloitte Touche Tohmatsu

NATIONAL CREDIT UNION ADMINISTRATION
SHARE INSURANCE FUND

BALANCE SHEETS
DECEMBER 31, 1998 AND 1997
(Dollars in Thousands)

ASSETS	1998	1997
Investments (Note 5)	$ 2,827,099	$ 3,125,921
Cash and cash equivalents	981,230	472,962
Accrued interest receivable	40,071	37,803
Assets acquired in assistance to insured credit unions	14,253	21,136
Capital notes advanced to insured credit unions	1,466	1,211
Notes receivable - National Credit Union Administration Operating Fund (Note 8)	34,574	35,987
Other notes receivable	947	454
TOTAL ASSETS	$ 3,899,640	$ 3,695,474
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Estimated losses from supervised credit unions (Note 3)	$ 78,626	$ 80,775
Estimated losses from asset and merger guarantees (Note 3)	42	257
Amounts due to insured shareholders of liquidated credit unions	7,612	20,148
Due to National Credit Union Administration Operating Fund (Note 8)	2,129	114
Accounts payable	554	494
Total liabilities	88,963	101,788
COMMITMENTS AND CONTINGENCIES (Notes 3, 8, 10, and 11)		
FUND BALANCE:		
Insured credit unions' accumulated contributions	2,938,503	2,772,896
Insurance fund balance	872,174	820,790
Total fund balance	3,810,677	3,593,686
TOTAL LIABILITIES AND FUND BALANCE	$ 3,899,640	$ 3,695,474

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
SHARE INSURANCE FUND

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1998 AND 1997
(Dollars in Thousands)

	1998	1997
REVENUES:		
Interest	$ 217,965	$ 201,938
Other	2,033	2,151
Total revenues	219,998	204,089
EXPENSES (Note 8):		
Administrative expenses (Note 8):		
Employee wages and benefits	35,852	34,196
Travel	4,958	5,281
Rent, communications, and utilities	1,723	1,380
Contracted services	2,532	2,131
Other	6,006	6,779
Total administrative expenses	51,071	49,767
Provision for insurance losses	-	-
Total expenses	51,071	49,767
EXCESS OF REVENUES OVER EXPENSES	$ 168,927	$ 154,322

STATEMENTS OF FUND BALANCE
YEARS ENDED DECEMBER 31, 1998 AND 1997
(Dollars in Thousands)

	Insured Credit Unions' Accumulated Contributions	Insurance Fund Balance
BALANCE AT JANUARY 1, 1997	$ 2,637,743	$ 774,421
Contributions from insured credit unions	135,153	-
Excess of revenues over expenses	-	154,322
Dividends to insured credit unions	-	(107,953)
BALANCE AT DECEMBER 31, 1997	2,772,896	820,790
Contributions from insured credit unions	165,607	-
Excess of revenues over expenses	-	168,927
Dividends to insured credit unions	-	(117,543)
BALANCE AT DECEMBER 31, 1998	$ 2,938,503	$ 872,174

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
SHARE INSURANCE FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998 AND 1997
(Dollars in Thousands)

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 168,927	$ 154,322
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Receipts (payments) relating to losses from supervised credit unions and assets and merger guarantees - net	(2,364)	(8,822)
(Increase) decrease in assets:		
Accrued interest receivable	(2,268)	(313)
Assets acquired from credit unions, net	6,883	694
Capital notes advanced to credit unions - net	(255)	(946)
Other notes receivable	(493)	1,852
(Decrease) increase in liabilities:		
Amounts due to National Credit Union Administration Operating Fund	2,015	(210)
Amounts due to insured shareholders of liquidated credit unions	(12,536)	(912)
Accounts payable	60	(99)
Net cash provided by operating activities	159,969	145,566
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments, net	298,822	(201,454)
Collections on note receivable - National Credit Union Administration Operating Fund	1,413	1,413
Net cash provided by (used in) investing activities	300,235	(200,041)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from insured credit unions	165,607	135,153
Dividends to insured credit unions	(117,543)	(107,953)
Net cash provided by financing activities	48,064	27,200
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	508,268	(27,275)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	472,962	500,237
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 981,230	$ 472,962

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
SHARE INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1998 AND 1997

1. ORGANIZATION AND PURPOSE

The National Credit Union Share Insurance Fund Administration Share Insurance Fund (the Fund) was created by the Public Law 91-468 (Title II of the Federal Credit Union Act), which was amended in 1984 by Public Law 98-369 as discussed in Note 4. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board for the purpose of insuring member share deposits in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is $100,000 per shareholder account.

NCUA exercises direct supervisory authority over federal credit unions and coordinates required supervisory involvement with the state chartering authority for state-chartered credit unions insured by the Fund. Insured credit unions are required to report certain financial and statistical information to NCUA on a semiannual or quarterly basis depending on the size of the credit union and are subject to periodic examination by NCUA. Information derived through the supervisory and examination process provides the Fund with the ability to identify credit unions experiencing financial difficulties that may require assistance from the Fund.

Credit unions experiencing financial difficulties may be assisted by the Fund in continuing their operations if these difficulties are considered by the Fund to be temporary or correctable. This special assistance may be in the form of a waiver of statutory reserve requirements, a guarantee account, and/or cash assistance. If continuation of the credit union's operations with Fund assistance is not feasible, a merger partner may be sought. If the assistance or merger alternatives are not practical, the credit union is liquidated.

The first form of special assistance is waivers of statutory reserve requirements, whereby the credit union is permitted to cease making additions to its regular reserve and, in more severe cases, to commence charging operating losses against its regular reserve. When all reserves have been depleted by the credit union, the fund may provide a reserve guarantee account in the amount of the reserve deficit. In addition, the Fund may provide cash assistance in the form of share deposits and capital notes, or may purchase assets from the credit union.

Mergers of financially troubled credit unions with stronger credit unions may also require Fund assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the Fund, and/or guarantees of the values of certain assets (primarily loans).

When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the Fund will liquidate the credit union, dispose of its assets, and pay members' shares up to the maximum insured amount. The values of certain assets sold (primarily loans) are sometimes guaranteed to third-party purchasers by the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents and Investments - Title II of the Federal Credit Union Act limits the Fund's investments to United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments are classified as held-to-maturity under Statement of Financial Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, the Fund records investments at amortized cost.

Advances to Insured Credit Unions - The Fund provides cash assistance in the form of interest and non-interest-bearing capital notes (carried at face value), share deposits, and loans to certain credit unions to assist them in continuing their operations.

Assets Acquired from Credit Unions - The Fund acquires the assets of liquidating credit unions pending their ultimate disposition. To assist in the merger of credit unions, the Fund may purchase certain credit union assets. In addition, the Fund may provide cash assistance by acquiring nonperforming assets of a credit union experiencing financial difficulty. These acquired assets are maintained by the Asset Management and Assistance Center in Austin, Texas, and are recorded by the Fund at their estimated net realizable value.

Premium Revenue - The Fund may assess each insured credit union a regular annual premium of 1/12 of 1% of its member share deposits (insured member share deposits in the case of corporate credit unions) outstanding as of December 31st of the preceding insurance year. The NCUA Board waived the 1998 and 1997 share insurance premiums.

Income Taxes - The Fund is exempt from Federal income taxes under §501(c)(1) of the Internal Revenue Code.

Fair Value of Financial Instruments - The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

a. *Cash and Cash Equivalents* - The carrying amounts for cash and cash equivalents approximate fair values.

b. *Investments* - The fair value for investments is the quoted market value.

c. *Capital Notes and Other Notes Receivable* - It is not practicable to estimate the fair value of these assets as there is no secondary market, and the Fund has the ability and the intention to hold these notes to maturity.

d. *Other* - Accrued interest receivable, notes receivable from NCUA Operating Fund, payable to NCUA Operating Fund, due to insured shareholders of liquidated credit unions and other accounts payable are recorded at book values, which approximate the respective fair values.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

Reclassifications - Certain reclassifications to 1997 amounts were made to conform to the 1998 presentation.

3. PROVISION FOR INSURANCE LOSSES

Management identifies credit unions experiencing financial difficulty through the Fund's supervisory and examination process. The estimated losses from these supervised credit unions are determined by management on a specified case basis. Management also evaluates overall economic trends and monitors potential system-wide risk factors such as increasing levels of consumer debt, bankruptcies, and delinquencies. Nonspecified case reserve requirements are determined based upon an assessment of insured risk and historic loss experience. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions.

Total insurance in force as of December 31, 1998, is $322 billion. The total net reserves for identified and anticipated losses from supervised credit unions' failures were $79 million at December 31, 1998. Should there be no recoveries provided during the resolution process, possible additional reserves for $30 million would be required.

In exercising its supervisory function, the Fund will, at times, extend guarantees of assets (primarily loans) to third-party purchasers or to credit unions to facilitate mergers. Such guarantees totaled approximately $556,000 and $933,000 at December 31, 1998 and 1997, respectively. The estimated losses from asset and merger guarantees are determined by management on a case-by-case evaluation.

In addition, the Fund guarantees loans made by the NCUA's Central Liquidity Facility (CLF). Total line-of-credit guarantees of credit unions at December 31, 1998 and 1997, are approximately $25,311,000 and $4,241,000, respectively. The total balances outstanding under these line-of-credit guarantees at December 31, 1998 and 1997, are approximately $384,000 and $-0-, respectively.

The activity in the reserves for estimated losses from supervised credit unions and asset and merger guarantees was as follows (in thousands):

	Year Ended December 31, 1998	Year Ended December 31, 1997
BEGINNING BALANCE	$ 81,032	$ 89,855
Insurance losses	(5,139)	(12,916)
Recoveries	2,775	4,093
ENDING BALANCE	$ 78,668	$ 81,032

4. FUND CAPITALIZATION

Title VIII of Public Law 98-369, effective July 14, 1984, provided for the capitalization of the Fund through the contribution by each insured credit union of an amount equal to 1% of the credit union's insured shares to be paid initially by January 21, 1985, and to be adjusted annually thereafter. The annual adjustment of the contribution is based on member share deposits outstanding as of December 31st of the preceding year and is billed on a calendar year basis. The 1% contribution will be

returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the Fund are transferred from the NCUA Board.

The law requires that, upon receipt of the 1% contribution, the total fund balance must be maintained at a normal operating level as determined by the NCUA Board. The NCUA Board has determined this level to range from 1.25% to 1.30% of insured shares. The level at both December 31, 1998 and 1997, was 1.30%. Total insured shares at December 31, 1998 and 1997, were $322 billion and $294 billion, respectively.

The NCUA Board declared and paid dividends of approximately $117,543,000 and $107,953,000 during 1998 and 1997, respectively.

5. INVESTMENTS

All cash received by the Fund that is not used for outlays related to assistance to insured credit unions and liquidation activities is invested in U.S. Treasury securities.

Investments consist of the following (in thousands):

	December 31, 1998				
	Yield to Maturity at Market	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. TREASURY SECURITIES:					
Maturities up to one year	5.98 %	$1,528,491	$10,899	$ (15)	$1,539,375
Maturities after one year through five years	6.11 %	1,298,608	29,361	-	1,327,969
Total		$2,827,099	$40,260	$ (15)	$2,867,344

	December 31, 1997				
	Yield to Maturity at Market	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. TREASURY SECURITIES:					
Maturities up to one year	5.40 %	$ 1,399,078	$ 330	$ (2,205)	$1,397,203
Maturities after one year through five years	6.25 %	1,726,843	18,395	(590)	1,744,648
Total		$3,125,921	$ 18,725	$ (2,795)	$3,141,851

Total investment purchases during both 1998 and 1997 were approximately $1.1 billion. Investment maturities during 1998 and 1997 were approximately $1.4 billion and $900 million, respectively. The Fund has the capability and management has the intention to hold all investments held at December 31, 1998 and 1997, to maturity. There were no investment sales during 1998 and 1997.

6. OTHER ASSETS

Other assets are primarily comprised of secured and unsecured term notes related to the sale of assets held by the Asset Management and Assistance Center and recoveries on failed credit unions. The notes are being repaid in monthly principal installments with terms ranging from one to thirty years and interest rates ranging from 8.0% to 10.5%.

7. AVAILABLE BORROWINGS

The Fund is authorized by the Federal Credit Union Act to borrow from the Treasury of the United States, upon authorization by the NCUA Board, up to a maximum of $100,000,000. The CLF is authorized to make advances to the Fund under terms and conditions established by the NCUA Board. No borrowings were obtained from these sources during 1998 and 1997.

8. TRANSACTIONS WITH NCUA OPERATING FUND

Substantial administrative services are provided to the Fund by the NCUA Operating Fund. The NCUA Operating Fund charges the Fund for these services based on an annual allocation factor approved by the NCUA Board derived from a study of actual usage conducted by the management of these Funds. The allocation factor was 50% to the Fund and 50% to the NCUA Operating Fund for 1998 and 1997. The

cost of services provided by the NCUA Operating Fund was approximately $59,293,000 and $48,607,000 for 1998 and 1997, respectively, and includes pension contributions of approximately $3,432,000 and $3,353,000 to the Civil Service Retirement System and Federal Employees Retirement System defined benefit retirement plans for 1998 and 1997, respectively.

In 1988, the Fund entered into a $2,161,000 thirty-year unsecured term note with the NCUA Operating Fund. Interest received was approximately $81,000 for 1998 and $83,000 for 1997. The note receivable balance at December 31, 1998 and 1997, was approximately $1,386,000 and $1,458,000, respectively.

In 1992, the Fund entered into a commitment to fund up to $41,975,000 through a thirty-year secured term note with the NCUA Operating Fund. The monies were advanced to the NCUA Operating Fund as needed to fund the costs of constructing a new building. Interest income was approximately $1,926,000 and $1,945,000 for 1998 and 1997, respectively. The note receivable balance at December 31, 1998, was approximately $33,188,000.

The above notes mature as follows (in thousands):

	Unsecured Term Note	Secured Term Note	Total
1999	$ 72	$ 1,341	$ 1,413
2000	72	1,341	1,413
2001	72	1,341	1,413
2002	72	1,341	1,413
2003	72	1,341	1,413
Thereafter	1,026	26,483	27,509
Total	$1,386	$ 33,188	$34,574

The variable rate on both term notes is equal to the Fund's prior-month yield on investments. The average interest rate during 1998 and 1997 was approximately 5.70% and 5.53%, respectively. At December 31, 1998, the rate was 5.74%.

The NCUA Operating Fund leases certain office space and equipment under operating lease agreements that expire through 2003. Based on the allocation factor approved by the NCUA Board for 1998, the Fund will reimburse the NCUA Operating Fund for approximately 50% of the future lease payments. The cost of services provided by the NCUA Operating Fund includes rental charges of approximately $488,000 and $339,000 for 1998 and 1997, respectively. The amounts were derived using the current annual allocation factor.

The NCUA Operating Fund's total future minimum lease payments as of December 31, 1998, are as follows (in thousands):

1999	$ 888
2000	538
2001	561
2002	571
2003	88
Total	$ 2,646

9. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Fund's financial instruments are as follows:

	December 31, 1998		December 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	$2,827,099	$2,867,344	$3,125,921	$3,141,851
Cash and cash equivalents	981,230	981,230	472,962	472,962
Accrued interest receivable	40,071	40,071	37,803	37,803
Notes receivable - NCUA Operating Fund	34,574	34,574	35,987	35,987
Amounts due to insured shareholders of liquidated credit unions	7,612	7,612	20,148	20,148
Due to NCUA Operating Fund	2,129	2,129	114	114
Accounts payable	554	554	494	494

10. CONCENTRATIONS

There are no significant concentrations of member share deposits within any region of the United States. Concentrations of member shares do exist within the manufacturing, governmental, and educational industries.

11. CONTINGENCIES

Field of Membership Litigation - Four North Carolina Banks and the American Bankers Association (ABA) have challenged NCUA's approval of charter amendments granted to AT&T Family Federal Credit Union (FCU). The banks challenged amendments that allowed select employee groups that were unrelated to the original sponsor to join the FCU. Their claim is that the amendments violate the common bond requirements of the FCU Act.

In First National Bank & Trust Co., *et al.* v. National Credit Union Administration, the District Court concluded that NCUA's select employee group policy, which permitted more than one distinct employee group to exist in a single credit union, each with its own common bond, was a reasonable interpretation of the FCU Act. The banks appealed. On July 30, 1996, the U.S. Court of Appeals for the D.C. Circuit issued an opinion reversing the District Court. The Court concluded that all groups in a credit union must share a single common bond.

On remand to the District Court, the plaintiffs sought a nationwide injunction barring all federal credit unions from adding select employee groups that did not share a single common bond or adding new members to select employee groups already within their field of membership. NCUA objected, arguing that this relief went far beyond what was sought in the AT&T case. The District Court then permitted the filing of a new lawsuit, ABA *et al.* v. NCUA *et al.*, which for the first time directly challenged NCUA's multiple group policy nationwide. The Court then issued a nationwide injunction barring NCUA's group policy nationwide and prohibiting all federal credit unions from adding new select employee groups or new members to existing select employee groups.

On December 24, 1996, the Court of Appeals issued a partial stay whereby credit unions were allowed to admit new members to existing select employee groups but were still prevented from adding new groups. On February 24, 1997, the Supreme Court agreed to hear the case. On February 25, 1998, the Supreme Court issued a decision holding that banks do have standing to challenge NCUA's interpretation of Section 109 of the FCU Act, and that NCUA's interpretation of that section was contrary to the unambiguous intent of Congress. However, in August 1998, Congress passed the Credit Union Membership Access Act (CUMAA), amending the FCU Act in favor of NCUA. The CUMAA allowed federal credit unions to retain their then-existing members and groups and to charter multiple common bond credit unions. CUMAA also authorized the chartering by NCUA of multiple common bond credit unions.

On December 17, 1998, NCUA's Board issued a final rule implementing the CUMAA. In response, on January 8, 1999, the ABA filed a new lawsuit, ABA v. NCUA which seeks to challenge and invalidate NCUA's field of membership rule (IRPS 99-1) on the premise that the NCUA Board-approved membership rule unlawfully expands membership in, and eases restrictions on the formation of, federal credit unions.

In the opinion of management, the ultimate resolution of these matters will not be material to NCUA's financial position.

Office of Personnel Management Action - In September 1997, the U.S. Office of Personnel Management (OPM) transmitted to NCUA a report entitled "Report of a Delegated Examining Oversight Review, National Credit Union Administration," dated June 16-20, 1997 (the OPM Report). The OPM Report concluded that NCUA had violated merit systems principles and commited prohibited personnel practices. As a result of the OMP Report, NCUA lost its hiring authority and was required to undertake certain remedial actions with respect to its personnel practices. During 1998, NCUA took all corrective actions required by OPM and, on July 31, 1998, OPM returned NCUA's appointing authority.

During 1997, the OPM referred the aforementioned matter to the Office of Special Counsel (OSC) for an investigation of prohibited personnel practices. The OSC has not yet completed its investigation. Once the investigation is complete, the OSC will either take corrective action on its own or order NCUA to do so.

The resolution of these matters may result in claims against NCUA, as well as additional costs related to the remedial personnel actions required. In the opinion of management, the ultimate resolution of these matters will not be material to NCUA's financial position.

Other Matters - In addition, NCUA is currently party to a number of other disputes that involve or may involve litigation. In the opinion of management, the ultimate liability with respect to those disputes, if any, will not be material to NCUA's financial position.

* * * * * *

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
DECEMBER 31, 1998 AND 1997
(Dollars in Thousands)

ASSETS	1998	1997
Cash and cash equivalents	$12,736	$ 7,549
Due from National Credit Union Share Insurance Fund (Note 4)	2,129	114
Employee advances	865	706
Other accounts receivable	113	94
Prepaid expenses	164	113
Fixed assets - net of accumulated depreciation and amortization (Note 3)	41,233	43,187
Employee residences held for resale	-	611
TOTAL ASSETS	$57,240	$52,374

LIABILITIES AND FUND BALANCE

	1998	1997
LIABILITIES:		
Accounts payable	$ 4,064	$ 2,623
Accrued wages and benefits	4,864	2,089
Accrued annual leave	4,952	4,892
Accrued employee travel	735	68[illegible]
Notes payable to National Credit Union Share Insurance Fund (Note 4)	34,574	35,987
Total liabilities	49,189	46,279
COMMITMENTS AND CONTINGENCIES (Notes 5 and 8)		
FUND BALANCE	8,051	6,095
TOTAL LIABILITIES AND FUND BALANCE	$5[illegible]	$52,374

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 1998 AND 1997
(Dollars in Thousands)

	1998	1997
REVENUES:		
Operating fees	$50,591	$44,701
Interest	1,396	1,278
Other	262	317
Total revenues	52,249	46,296
EXPENSES (Note 4):		
Employee wages and benefits	35,853	34,197
Travel	4,958	5,281
Rent, communications, and utilities	1,723	1,380
Contracted services	2,532	2,131
Other	5,227	5,618
Total expenses	50,293	48,607
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	1,956	(2,311)
FUND BALANCE, BEGINNING OF YEAR	6,095	8,406
FUND BALANCE, END OF YEAR	$ 8,051	$ 6,095

See notes to financial statements.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998 AND 1997
(Dollars in Thousands)

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (deficiency) of revenues over expenses	$ 1,956	$ (2,311)
Adjustments to reconcile excess (deficiency) of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	3,205	4,680
Loss on disposal of fixed assets	162	149
Miscellaneous allowances	-	70
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(2,015)	210
Employee advances	(159)	(488)
Other accounts receivable	(19)	487
Prepaid expenses	(51)	(23)
(Decrease) increase in liabilities:		
Accounts payable	1,441	286
Accrued wages and benefits	2,775	(2,416)
Accrued annual leave	60	(452)
Accrued employee travel	47	19
Net cash provided by operating activities	7,402	211
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(2,016)	(4,930)
Proceeds from sale of fixed assets	1,214	830
Net cash used in investing activities	(802)	(4,100)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(1,413)	(1,413)
Net cash used in financing activities	(1,413)	(1,413)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,187	(5,302)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,549	12,851
CASH AND CASH EQUIVALENTS, END OF YEAR	$12,736	$ 7,549

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1998 AND 1997

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Operating Fund (the Fund) was created by the Federal Credit Union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration Board for the purpose of providing administration and service to the Federal Credit Union System.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents - The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments in 1998 and 1997 were cash equivalents and are stated at cost, which approximates market.

Depreciation and Amortization - Building, furniture and equipment, and leasehold improvements are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the building and furniture and equipment, and the shorter of the estimated useful life or lease term for leasehold improvements. Estimated useful lives are forty years for the building and three to ten years for the furniture and equipment and leasehold improvements.

Operating Fees - The Fund assesses each federally chartered credit union an annual fee based on the credit union's asset base as of the preceding December 31. The fee is designed to cover the costs of providing administration and service to the Federal Credit Union System. The Fund recognizes this operating fee revenue ratably over the year.

Income Taxes - The Fund is exempt from Federal income taxes under §501(c)(1) of the Internal Revenue Code.

Fair Value of Financial Instruments - The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

> Cash and cash equivalents, receivable from National Credit Union Share Insurance Fund (NCUSIF), employee advances, other accounts receivable, accounts and notes payable to NCUSIF, and other accounts payable are recorded at book values, which approximate the respective fair market values.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

Reclassifications - Certain reclassifications to 1997 amounts were made to the conform to the 1998 presentation.

3. FIXED ASSETS

Fixed assets are comprised of the following (in thousands):

	1998	1997
Office building and land	$42,229	$ 42,229
Furniture and equipment	21,780	20,544
Leasehold improvements	-	19
Total	64,009	62,792
Less: Accumulated depreciation and amortization	22,776	19,605
Fixed assets, net	$41,233	$ 43,187

4. TRANSACTIONS WITH NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board derived from an estimate of actual usage. The allocation factor was 50% to NCUSIF and to the Fund for 1997 and 1998. The cost of the services allocated to NCUSIF, which totaled approximately $50,293,000 and $48,607,000 for 1998 and 1997, respectively, are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

In 1988, the Fund entered into a $2,161,000 thirty-year unsecured term note with NCUSIF for the purchase of a building. Interest costs incurred were approximately $81,000 for 1998 and $83,000 for 1997. The outstanding principal balance at December 31, 1998 and 1997, was $1,386,000 and $1,458,000, respectively.

In 1992, the Fund entered into a commitment to borrow up to $41,975,000 in a thirty-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a new building. Interest costs incurred were approximately $1,926,000 and $1,945,000 for 1998 and 1997, respectively. The note payable balance at December 31, 1998, was approximately $33,188,000.

The above notes require principal repayments as follows (in thousands):

	Unsecured Term Note	Secured Term Note	Total
1999	$ 72	$ 1,341	$ 1,413
2000	72	1,341	1,413
2001	72	1,341	1,413
2002	72	1,341	1,413
2003	72	1,341	1,413
Thereafter	1,026	26,483	27,509
	$ 1,386	$33,188	$ 34,574

The variable rate on both notes is equal to NCUSIF's prior-month yield on investments. The average interest rate during 1998 and 1997 was 5.70% and 5.53%, respectively. The interest rate at December 31, 1998, was 5.74%.

5. COMMITMENTS

The Fund leases office space under lease agreements that expire through 2003. Office rental charges amounted to approximately $976,000 and $678,000 of which approximately $488,000 and $339,000 was reimbursed by NCUSIF for 1998 and 1997, respectively. In addition, the Fund leases office equipment under operating leases with lease terms of less than one year.

The future minimum lease payments as of December 31, 1998, are as follows (in thousands):

	Operating Leases
1999	$ 888
2000	538
2001	561
2002	571
2003	88
Total	$2,646

Based on the allocation factor approved by the NCUA Board for 1998, NCUSIF will reimburse the Fund for approximately 50% of the future lease payments.

6. RETIREMENT PLAN

The employees of the Fund are participants in the Civil Service Retirement and Disability Fund, which includes the Federal Employees' Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plan, employees can also elect additional contributions between 1% and 10% of their gross pay, and the Fund will match up to 5% of the employees' gross pay. In 1998 and 1997, the Fund's contributions to the plans were approximately $6,863,000 and $6,705,000, respectively, of which approximately $3,432,000 and $3,352,000 were reimbursed by NCUSIF, respectively.

The Fund does not account for the assets of the above plans and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by the U.S. Office of Personnel Management for the Civil Service Retirement and Disability Fund and are not allocated to individual employers.

7. DISCLOSURES OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Fund's financial instruments are as follows (in thousands):

	December 31, 1998		December 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 12,736	$ 12,736	$ 7,549	$ 7,549
Due from NCUSIF	2,129	2,129	114	114
Employee advances	865	865	706	706
Other accounts receivable	113	113	94	94
Accounts payable	4,064	4,064	2,623	2,623
Notes payable to NCUSIF	34,574	34,574	35,987	35,987

8. CONTINGENCIES

Field of Membership Litigation - Four North Carolina Banks and the American Bankers Association (ABA) have challenged NCUA's approval of charter amendments granted to AT&T Family Federal Credit Union (FCU). The banks challenged amendments that allowed select employee groups that were unrelated to the original sponsor to join the FCU. Their claim is that the amendments violate the common bond requirements of the FCU Act.

In First National Bank & Trust Co., *et al.* v. National Credit Union Administration, the District Court concluded that NCUA's select employee group policy, which permitted more than one distinct employee group to exist in a single credit union, each with its own common bond, was a reasonable interpretation of the FCU Act. The banks appealed. On July 30, 1996, the U.S. Court of Appeals for the D.C. Circuit issued an opinion reversing the District Court. The Court concluded that all groups in a credit union must share a single common bond.

On remand to the District Court, the plaintiffs sought a nationwide injunction barring all federal credit unions from adding select employee groups that did not share a single common bond or adding new members to select employee groups already within their field of membership. NCUA objected arguing that this relief went far beyond what was sought in the AT&T case. The District Court then permitted the filing of a new lawsuit, ABA *et al.* v. NCUA *et al.*, which for the first time directly challenged NCUA's multiple group policy nationwide. The Court then issued a nationwide injunction barring NCUA's group policy nationwide and prohibiting all federal credit unions from adding new select employee groups or new members to existing select employee groups.

On December 24, 1996, the Court of Appeals issued a partial stay whereby credit unions were allowed to admit new members to existing select employee groups, but were still prevented from adding new groups. On February 24, 1997, the Supreme Court agreed to hear the case. On February 25, 1998, the Supreme Court issued a decision holding that banks do have standing to challenge NCUA's interpretation of Section 109 of the FCU Act, and that NCUA's interpretation of the section was contrary to the unambiguous intent of Congress. However, in August 1998, Congress passed the Credit Union Membership Access Act (CUMAA), amending the FCU Act in favor of NCUA. The CUMAA allowed federal credit unions to retain their then-existing members and groups and to charter multiple common bond credit unions. CUMAA also authorized the chartering by NCUA of multiple common bond credit unions.

On December 17, 1998, NCUA's Board issued a final rule implementing the CUMAA. In response, on January 8, 1999, the ABA filed a new lawsuit, ABA v. NCUA, which seeks to challenge and invalidate NCUA's field of membership rule (IRPS 99-1) on the premise that the NCUA Board-approved membership rule unlawfully expands membership in, and eases restrictions on the formation of, federal credit unions.

In the opinion of management, the ultimate resolution of these matters will not be material to NCUA's financial position.

Office of Personnel Management Action - In September 1997, the U.S. Office of Personnel Management (OPM) transmitted to NCUA a report entitled "Report of a Delegated Examining Oversight Review, National Credit Union Administration," dated June 16-20, 1997 (the OPM Report). The OPM Report concluded that NCUA had violated merit systems principles and committed prohibited personnel practices. As a result of the OPM Report, NCUA lost its hiring authority and was required to undertake certain remedial actions with respect to its personnel practices. During 1998, NCUA took all corrective actions required by OPM and, on July 31, 1998, OPM returned NCUA's appointing authority.

During 1997, the OPM referred the aforementioned matter to the Office of Special Counsel (OSC) for an investigation of prohibited personnel practices. The OSC has not yet completed its investigation. Once the investigation is complete, the OSC will either take corrective action on its own or order NCUA to do so.

The resolution of these matters may result in claims against NCUA, as well as additional costs related to the remedial personnel actions required. In the opinion of management, the ultimate resolution of these matters will not be material to NCUA's financial position.

Other Matters - In addition, NCUA is currently party to a number of other disputes which involve or may involve litigation. In the opinion of management, the ultimate liability with respect to these disputes, if any, will not be material to NCUA's financial position.

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NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
DECEMBER 31, 1998 AND 1997
(Dollars in Thousands)

ASSETS	1998	1997
Cash	$ 12	$ 14
Investments with U.S. Central Credit Union (Notes 5 and 8)	797,405	763,332
Accrued interest receivable	8,233	9,718
TOTAL ASSETS	$805,650	$773,064
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Member deposits (Note 7)	$ 25,782	$ 25,813
Accounts payable and other liabilities	59	69
Total liabilities	25,841	25,882
MEMBERS' EQUITY:		
Capital stock - required (Note 7)	768,298	735,671
Retained earnings	11,511	11,511
Total members' equity	779,809	747,182
TOTAL LIABILITIES AND MEMBERS' EQUITY	$805,650	$773,064

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1998 AND 1997
(Dollars in Thousands)

	1998	1997
REVENUE - Investment income	$40,028	$42,245
EXPENSES:		
Operating expenses:		
Group agent service fee	1	2
Personnel services	85	97
Other services	26	30
Rent, communications and utilities	14	14
Personnel benefits	19	18
Supplies and materials	2	2
Employee travel	2	3
Printing and reproduction	4	6
Total operating expenses	153	172
Interest - member deposits	449	531
Total expenses	602	703
EXCESS OF REVENUE OVER EXPENSES	$39,426	$41,542

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 1998 AND 1997
(Dollars in Thousands)

	Capital Stock	Retained Earnings
BALANCE AT JANUARY 1, 1997	$706,214	$11,511
Issuance of required capital stock	29,730	-
Redemption of required capital stock	(273)	-
Dividends	-	(41,542)
Excess of revenue over expenses	-	41,542
BALANCE AT DECEMBER 31, 1997	735,671	11,511
Issuance of required capital stock	32,627	-
Redemption of required capital stock	-	-
Dividends	-	(39,426)
Excess of revenue over expenses	-	39,426
BALANCE AT DECEMBER 31, 1998	$768,298	$11,511

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998 AND 1997
(Dollars in Thousands)

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenue over expenses	$39,426	$ 41,542
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Decrease (increase) in accrued interest receivable	1,485	(286)
Decrease in accounts payable and other liabilities	(10)	(10)
Net cash provided by operating activities	40,901	41,246
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(34,073)	(38,293)
Net cash used in investing activities	(34,073)	(38,293)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to member deposits	1,506	9,486
Issuance of required capital stock	32,627	29,730
Dividends	(39,426)	(41,542)
Withdrawal of member deposits	(1,537)	(341)
Redemption of required capital stock	-	(273)
Net cash used in financing activities	(6,830)	(2,940)
NET (DECREASE) INCREASE IN CASH	(2)	13
CASH, BEGINNING OF YEAR	14	1
CASH, END OF YEAR	$ 12	$ 14

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1998 AND 1997

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Central Liquidity Facility (CLF) was created by the National Credit Union Central Liquidity Facility Act (the Act). The CLF is designated as a mixed-ownership government corporation under the Government Corporation Control Act. The CLF exists within the National Credit Union Administration (NCUA) and is managed by the National Credit Union Administration Board. The CLF became operational on October 1, 1979.

The purpose of the CLF is to improve general financial stability by meeting the liquidity needs of credit unions. The CLF is a tax-exempt organization under Section 501(c)(1) of the Internal Revenue Code.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The CLF maintains its accounting records on the accrual basis of accounting.

Allowance for Loan Losses - Loans to members are made on both a short-term and long-term basis. For all loans, the CLF either obtains a security interest in the assets of the borrower or in some cases receives the guarantee of the NCUA Share Insurance Fund.

The CLF evaluates the collectibility of its loans to members through examination of the financial condition of the individual borrowing credit unions and the credit union industry in general.

Investments - The CLF invests in redeposits and share accounts at U.S. Central Credit Union (see Notes 5 and 8). All other investments are short-term with no maturities in excess of one year. All investments are classified as held-to-maturity under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, the CLF records investments at amortized cost.

Fair Value of Financial Instruments - The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

a. *Cash* - The carrying amounts for cash approximate fair value.

b. *Investments* - Securities held have maturities of one year or less and, as such, the carrying amounts approximate fair value.

c. *Loans* - For loans advanced to member credit unions, the carrying amounts approximate fair value. There were no loans to members outstanding at December 31, 1998 and 1997.

d. *Member Deposits* - Funds maintained with the CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand and the carrying amounts approximate the fair value.

e. *Other* - Accrued interest receivable and accounts payable and other liabilities are recorded at book values, which approximate the respective fair values.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

Reclassifications - Certain reclassifications to 1997 amounts were made to conform to the 1998 presentation.

3. GOVERNMENT REGULATIONS

The CLF is subject to various Federal laws and regulations. The CLF's operating budget requires Congressional approval and the CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the United States Government and its agencies, deposits in Federally insured financial institutions, and shares and deposits

in credit unions. Borrowing is Congressionally limited to twelve times equity and capital subscriptions on-call. However, there is a Congressional limitation of $600,000,000 on funds that are borrowed and then loaned out at any one point in time. At December 31, 1998 and 1997, the CLF was in compliance with these Congressional limitations.

4. LOANS TO MEMBERS

There were no loans outstanding at December 31, 1998 or 1997. However, the CLF provides members with extended loan commitments and lines of credit. There were no outstanding loan commitments or lines of credit at December 31, 1998.

5. FUNDS ON DEPOSIT WITH U.S. CENTRAL CREDIT UNION

Funds not currently required for operations are invested as follows (in thousands):

	December 31,	
	1998	1997
U.S. Central Credit Union (see Note 8):		
Redeposit Account	$ 732,320	$ 705,332
Share accounts	65,085	58,000
	$ 797,405	$ 763,332

6. BORROWING AUTHORITY

The Secretary of the Treasury is authorized by the Act to lend up to $500 million to the CLF in the event that the Board certifies to the Secretary that the CLF does not have sufficient funds to meet the liquidity needs of credit unions. This authority to lend is limited to such extent and in such amounts as are provided in advance by Congressional Appropriation Acts. On December 23, 1981, President Reagan signed PL 97-101, which provided $100 million of permanent indefinite borrowing authority that may be provided by the Secretary of the Treasury to the CLF to meet emergency liquidity needs of credit unions. Borrowings would be from the Federal Financing Bank with interest generally payable upon maturity. There were no borrowings outstanding at December 31, 1998 and 1997.

7. CAPITAL STOCK AND MEMBER DEPOSITS

The required capital stock account represents subscriptions remitted to the CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which amount is required to be remitted to the CLF. Agent members' required subscription amounts equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the credit unions served by the agent member, one-half of which is required to be remitted to the CLF. In both cases, the remaining one-half of the subscription is required to be held in liquid assets by the member credit unions subject to call by the National Credit Union Administration Board. These unremitted subscriptions are not reflected in the CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are declared and paid on required capital stock.

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

8. U.S. CENTRAL CREDIT UNION MEMBERSHIP

During fiscal year 1984, the CLF accepted a membership request from U.S. Central Credit Union (USC) on behalf of 29 of its corporate credit union members. At December 31, 1998 and 1997, $732,320,000 and $705,332,000, respectively, of the required portion of subscribed capital stock was purchased from the CLF by USC on behalf of its member credit unions.

In addition, by accepting the USC membership request, the CLF was initially committed to reinvest all but $50,000,000 of its total share capital in USC at market rates of interest. Beginning April 1, 1996, the CLF reinvests all of its agent member share capital in USC at market rates of interest. At December 31, 1998 and 1997, approximately $797,405,000 and $763,332,000, respectively, were invested in USC share accounts at 4.51% and 5.48%, respective yields.

9. **CONCENTRATION OF CREDIT RISK**

At December 31, 1998 and 1997, the CLF has a concentration of credit risk for its investments on deposit with USC of approximately $797,405,000 and $763,332,000 (see Notes 5 and 8).

10. **SERVICES PROVIDED BY THE NATIONAL CREDIT UNION ADMINISTRATION**

The National Credit Union Administration provides the CLF with data processing and other miscellaneous services and supplies. In addition, the National Credit Union Administration pays CLF's employees' salaries and benefits as well as the CLF's portion of monthly building operating costs. The CLF reimburses the National Credit Union Administration on a monthly basis for these items. Total reimbursements for the years ended December 31, 1998 and 1997, amounted to approximately $151,000 and $171,000, respectively.

11. **DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amount and the estimated fair value of the CLF's financial instruments are as follows (in thousands):

	December 31, 1998		December 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 12	$ 12	$ 14	$ 14
Investments	797,405	797,405	763,332	763,332
Accrued interest receivable	8,233	8,233	9,718	9,718
Member deposits	25,782	25,782	25,813	25,813
Accounts payable and other liabilities	59	59	69	69

* * * * * * *

Insurance Fund Ten-Year Trends

FISCAL YEAR	1989	1990	1991	1992	1993	1994	1995[1]	1996	1997	1998
INCOME (IN THOUSANDS)										
Regular premium-federal	—	—	$26,174	$78,889	—	—	—	—	—	—
Regular premium-state	—	—	15,061	44,985	—	—	—	—	—	—
Interest income	$146,612	$159,096	162,979	148,659	$142,027	$147,564	$172,926	$184,715	$201,938	$217,965
Other income	2,188	1,168	3,195	5,512	4,223	2,258	2,147	2,148	2,151	2,033
Total income	**$148,800**	**$160,264**	**$207,409**	**$278,045**	**$146,250**	**$149,822**	**$175,073**	**$186,863**	**$204,089**	**$219,998**
EXPENSES (IN THOUSANDS)										
Operating	$30,817	$35,153	$40,353	$46,161	$43,574	$44,132	$48,384	$47,220	$49,767	$51,071
Insurance losses	93,608	89,982	163,000	112,000	60,000	26,000	—	—	—	—
Losses on investment sales	—	—	—	—	—	—	—	—	—	—
Total expenses	**$124,425**	**$125,135**	**$203,353**	**$158,161**	**$103,574**	**$ 70,132**	**$48,384**	**$47,220**	**$49,767**	**$51,071**
Net Income (in thousands)	$24,375	$35,129	$4,056	$119,884	$42,676	$ 79,690	$126,690	$139,643	$154,322	$168,927
DATA HIGHLIGHTS										
Total equity (in thousands)	$1,972,502	$2,052,635	$2,257,124	$2,555,449	$2,814,253	$3,054,308	$3,250,002	$3,412,164	$3,593,686	$3,810,677
Equity as a percentage of shares in insured credit unions	1.25%	1.25%	1.23%	1.26%	1.26%	1.27%	1.30%	1.30%	1.30%	1.30%
Contingent liabilities (in thousands)	$10,663	$7,803	$6,734	$73,594	$1,334	$22	$375	$1,026	$933	$556
Contingent liabilities as a percentage of equity	0.5%	0.4%	0.3%	2.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NCUSIF loss per $1,000 of insured shares	$0.58	$0.51	$0.83	$0.51	$0.25	$0.10	$0.00	$0.00	$0.00	$0.00
OPERATING RATIOS										
Premium income	—	—	19.9%	44.5%	—	—	—	—	—	—
Interest income	98.5%	99.3%	78.6%	53.5%	97.1%	98.5%	98.8%	98.8%	99.0%	99.1%
Other income	1.5%	0.7%	1.5%	2.0%	2.9%	1.5%	1.2%	1.1%	1.0%	.9%
Operating expenses	20.7%	21.9%	19.5%	16.6%	29.8%	29.5%	27.6%	25.3%	24.4%	23.2%
Insurance losses	62.9%	56.1%	78.6%	40.3%	41.0%	17.4%	0.0%	0.0%	0.0%	0.0%
Total expenses	83.6%	78.1%	98.1%	56.9%	70.8%	46.8%	27.6%	25.3%	24.4%	23.2%
Net income	17.4%	21.9%	1.9%	43.1%	29.2%	53.2%	72.4%	74.7%	75.6%	76.8%
INVOLUNTARY LIQUIDATIONS COMMENCED										
Number	54	83	89	81	54	29*	15	13	8	13
Share payouts (in thousands)	$21,687	$70,875	$117,710	$124,857	$57,303	$27,279*	$11,737	$1,028	$17,888	$6,298
Share payouts as a percentage of total insured shares	0.013%	0.040%	0.067%	0.057%	0.024%	0.011%	0.004%	0.000%	0.006%	0.002%

*Includes 2 liquidations occurring during transition quarter

[1] EFFECTIVE JANUARY 1, 1995, THE NCUSIF FISCAL YEAR AND NCUSIF INSURANCE YEAR CHANGED FROM OCTOBER 1 THRU SEPTEMBER 30 TO A PERIOD OF JANUARY 1 THRU DECEMBER 31

Insurance Fund Ten-Year Trends

FISCAL YEAR	1989	1990	1991	1992	1993	1994	1995[2]	1996	1997	1998
MERGERS—FISCAL YEAR										
Assisted	60	81	41	33	17	8*	7	6	8	5
Unassisted	395	386	357	352	328	423*	297	305	164	217

*INCLUDES 2 ASSISTED MERGERS AND 81 UNASSISTED MERGERS OCCURRING DURING TRANSISTION QUARTER

FISCAL YEAR	1989	1990	1991	1992	1993	1994	1995[2]	1996	1997	1998
ASSISTANCE TO AVOID LIQUIDATION										
Capital notes and other cash advances outstanding	$39.360	$67.891	$35.101	$101.228	$6.624	$2.673	$0	$265	$1.211	$1.466
Non-cash guaranty accounts	$53.959	$98.576	$179.595	$88.286	$16.587	$2.849	$1.134	$1.197	$1.343	$1.557
Number of active cases	43	42	51	27	15	7	9	12	7	12
NUMBER OF PROBLEM CASE INSURED CREDIT UNIONS (CODE 4 & 5)										
Number	794	678	685	608	474	319	267	286	326	308
Shares (millions)	$8.400	$9.400	$10.400	$7.400	$4.300	$2.430	$2.051	$1.759	$2.928	$3.181
Problem case shares as a percentage of insured shares	4.8%	4.9%	5.2%	3.4%	1.8%	.96%	.80%	.65%	.95%	.99%

DECEMBER 31	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
SHARES IN INSURED CREDIT UNIONS (IN MILLIONS)[1]										
Federal credit unions	$109.653	$117.881	$127.316	$142.139	$149.229	$155.483	$164.582	$173.544	$178.953	$191.328
State credit unions	57.518	62.082	72.467	87.386	91.101	92.173	96.856	101.914	114.322	130.129
Total shares	**$167,171**	**$179,963**	**$199,783**	**$229,525**	**$240,330**	**$247,653**	**$261,438**	**$275,458**	**$293,275**	**$321,457**
NUMBER OF MEMBER ACCOUNTS IN INSURED CREDIT UNIONS (IN THOUSANDS)										
Federal credit unions	53.301	55.222	57.077	58.366	60.746	78.835	78.245	77.243	73.566	72.848
State credit unions	32.547	30.726	33.646	34.749	36.459	44.203	55.740	41.841	45.690	49.130
Total	**85,848**	**85,948**	**90,723**	**93,115**	**97,205**	**123,038**	**133,985**	**119,084**	**119,256**	**121,978**
NUMBER OF INSURED CREDIT UNIONS										
Federal credit unions	8.821	8.511	8.229	7.916	7.696	7.498	7.329	7.152	6.981	6.815
State credit unions	4.552	4.349	4.731	4.737	4.621	4.493	4.358	4.240	4.257	4.180
Total	**13,373**	**12,860**	**12,960**	**12,653**	**12,317**	**11,991**	**11,687**	**11,392**	**11,238**	**10,995**
Shares in insured credit unions as a percentage of all credit union shares	96.0%	96.0%	96.2%	96.4%	98.0%	98.0%	99.0%	99.0%	99.0%	99.0%
State credit union portion of insured shares	34.4%	34.6%	36.3%	38.1%	37.9%	37.2%	37.1%	37.0%	40.0%	40.5%

[1] INSURED SHARES IN NATURAL PERSON CREDIT UNIONS.
[2] EFFECTIVE JANUARY 1, 1995, THE NCUSIF FISCAL YEAR AND NCUSIF INSURANCE YEAR CHANGED FROM OCTOBER 1 THRU SEPTEMBER 30 TO A PERIOD OF JANUARY 1 THRU DECEMBER 31

Federal Credit Unions Ten-Year Summary

FEDERAL CREDIT UNIONS
DECEMBER 31 (DOLLAR AMOUNTS IN MILLIONS)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Number of credit unions	8,821	8,511	8,229	7,916	7,696	7,498	7,329	7,152	6,981	6,815
Number of members	35,612,317	36,241,607	37,080,854	38,205,128	39,755,596	40,837,392	42,162,627	43,545,541	43,500,553	43,864,851
Assets	$120,666	$130,073	$143,940	$162,544	$172,854	$182,529	$193,781	$206,692	$215,097	$231,904
Loans outstanding	80,272	83,029	84,150	87,633	94,640	110,090	120,514	134,120	140,100	144,849
Shares	109,653	117,892	130,164	146,078	153,506	160,226	170,300	180,9[illegible]	187,817	202,651
Reserves[1]	4,690	5,158	5,539	6,176	6,976	7,616	8,351	9,092	9,371	9,837
Undivided earnings	4,072	4,594	5,338	6,793	8,338	9,584	11,445	13,087	14,365	15,468
Gross income	12,420	13,233	13,559	13,301	12,946	13,496	15,276	16,645	17,404	18,137
Operating expenses	4,364	4,730	5,068	5,329	5,578	5,964	6,468	7,246	7,793	8,241
Dividends	6,910	7,372	7,184	5,876	5,038	5,208	6,506	7,087	7,425	7,760
Reserve transfers	265	222	170	191	186	245	262	240	201	211
Net income	781	841	1,087	1,897	2,096	1,903	1,886	1,992	1,915	1,869
PERCENT CHANGE										
Total assets	5.3%	7.8%	10.7%	12.9%	6.3%	5.6%	6.2%	6.7%	4.1%	7.8%
Loans outstanding	8.8	3.4	1.3	4.1	8.0	16.3	9.5	11.3	4.5	3.4
Savings	5.0	7.5	10.4	12.2	5.1	4.4	6.3	6.3	3.8	7.9
Reserves	11.2	10.0	7.4	11.5	13.0	9.2	9.7	9.3	3.1	5.0
Undivided earnings	14.2	12.8	16.2	27.3	22.7	14.9	19.4	14.2	9.8	7.7
Gross income	11.2	6.5	2.5	- 1.9	-2.7	4.2	13.2	9.0	4.6	4.2
Operating expenses	11.0	8.4	7.1	5.1	4.7	6.9	8.5	11.9	7.5	5.7
Dividends	12.4	6.7	- 2.6	-18.2	-14.3	3.4	24.9	8.7	4.8	4.5
Net reserve transfers	14.2	-16.1	- 23.8	12.7	-2.6	31.7	6.9	-8.1	-16.3	5.8
Net income	- 2.3	7.6	29.3	74.5	10.5	-9.2	-0.1	6.9	-3.9	-2.4
SIGNIFICANT RATIOS										
Reserves to assets	3.9%	4.0%	3.8%	3.8%	4.0%	4.2%	4.3%	4.4%	4.4%	4.2%
Reserves and undivided earnings to assets	6.8	7.3	7.5	7.6	8.0	8.9	10.2	10.7	11.0	10.9
Reserves to loans	5.8	6.2	6.6	7.0	7.4	6.9	6.9	6.8	6.7	6.8
Loans to shares	73.2	70.4	64.6	60.0	61.7	68.7	70.8	74.1	74.6	71.5
Operating expenses to gross income	35.1	35.7	37.4	40.1	43.1	44.2	42.3	39.4	39.4	45.4
Salaries and benefits to gross income	14.7	15.0	15.7	17.4	19.4	20.2	19.2	19.2	19.3	19.7
Dividends to gross income	55.6	55.7	53.0	44.2	38.9	38.6	42.6	42.6	42.7	42.8
Yield on average assets	10.6	10.6	9.9	8.7	7.7	7.6	8.1	8.3	8.3	8.1
Cost of funds to average assets	6.0	5.9	5.3	3.9	3.1	3.0	3.5	3.6	3.6	3.5
Gross spread	4.6	4.6	4.6	4.8	4.6	4.6	4.6	4.7	4.7	4.6
Net income divided by gross income	6.3	6.4	8.0	14.3	16.2	14.1	12.3	12.0	12.2	10.3
Yield on average loans	11.5	11.4	11.2	10.4	9.4	8.7	8.9	8.5	8.7	8.6
Yield on average investments	8.4	8.3	7.0	5.5	4.6	5.1	5.6	6.0	5.9	5.7

[1] DOES NOT INCLUDE THE ALLOWANCE FOR LOAN LOSSES

Federally Insured State-Chartered Credit Unions Ten-Year Summary

FEDERALLY INSURED STATE-CHARTERED CREDIT UNIONS
DECEMBER 31 (DOLLAR AMOUNTS IN MILLIONS)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Number of credit unions	4,552	4,349	4,731	4,737	4,621	4,493	4,358	4,240	4,257	4,180
Number of members	18,939,127	19,453,940	21,619,223	23,859,447	23,996,751	24,294,761	24,926,666	25,665,783	27,921,882	29,673,998
Assets	$ 63,175	$ 68,133	$ 83,133	$ 98,767	$104,316	$106,937	$112,861	$120,176	$136,107	$156,787
Loans outstanding	42,373	44,102	49,268	53,727	57,695	65,769	71,606	79,651	92,117	100,890
Shares	57,658	62,082	75,626	89,648	93,482	94,797	99,838	105,728	119,359	137,347
Reserves[1]	2,872	3,047	3,620	4,238	4,754	4,908	5,246	5,689	6,421	7,125
Undivided earnings	1,945	2,241	2,952	3,910	4,862	5,563	6,645	7,490	8,779	9,876
Gross income	6,529	6,967	7,878	8,182	7,878	7,955	8,932	9,736	11,124	12,309
Operating expenses	2,216	2,412	2,860	3,203	3,302	3,473	3,770	4,198	4,939	5,548
Dividends	2,930	3,908	4,203	3,664	3,109	3,145	3,889	3,367	3,790	4,229
Reserve transfers	150	118	98	121	114	144	147	143	138	161
Net income	457	509	711	1,207	1,347	1,146	1,095	1,154	1,237	1,262
PERCENT CHANGE										
Total assets	4.0%	7.8%	22.0%	18.8%	5.6%	2.5%	5.5%	6.5%	13.2%	15.2%
Loans outstanding	6.0	4.1	11.7	9.1	7.4	14.0	8.9	11.2	15.6	9.5
Savings	4.4	7.7	21.8	18.5	4.3	1.4	5.3	5.9	12.9	15.1
Reserves	10.0	6.1	18.8	17.1	12.2	3.2	6.9	8.5	12.9	10.9
Undivided earnings	17.8	15.2	31.7	32.5	24.3	14.4	19.4	12.4	17.2	12.5
Gross income	9.3	6.7	13.1	3.9	-3.7	1.0	12.3	9.0	14.3	10.6
Operating expenses	6.6	8.8	18.6	12.0	3.1	5.2	8.6	11.4	17.7	12.3
Dividends	-10.9	33.4	7.5	-12.8	-15.1	1.2	23.7	-13.4	12.6	11.6
Net reserve transfers	-5.1	-21.3	-16.9	23.5	-5.8	26.3	2.1	-2.7	-3.5	18.4
Net income	-2.8	11.4	39.7	69.8	11.6	-4.5	-4.5	5.7	7.2	2.0
SIGNIFICANT RATIOS										
Reserves to assets	4.5%	4.5%	4.4%	4.3%	4.6%	4.6%	4.6%	4.7%	4.7%	4.5%
Reserves and undivided earnings to assets	7.6	7.8	7.9	8.2	9.2	9.8	10.5	11.0	11.2	10.8
Reserves to loans	6.8	6.9	7.3	7.9	8.2	7.5	7.3	7.1	7.0	7.1
Loans to shares	73.5	71.0	65.1	59.9	61.7	69.4	71.7	75.3	77.2	73.5
Operating expenses to gross income	33.9	34.6	36.3	39.1	41.9	43.7	42.2	39.1	39.5	45.1
Salaries and benefits to gross income	14.4	14.7	15.4	16.9	19.0	20.0	19.1	18.8	19.0	19.4
Dividends to gross income	44.9	56.1	53.4	44.8	39.5	39.5	43.5	35.0	34.1	34.3
Yield on average assets	10.5	10.6	10.4	9.0	7.8	7.5	8.1	8.4	8.7	8.4
Cost of funds to average assets	5.9	6.0	5.6	4.1	3.1	3.0	3.5	3.6	3.8	3.7
Gross spread	4.6	4.6	4.6	4.6	4.7	4.5	4.6	4.7	4.9	4.7
Net income divided by gross income	7.0	7.3	9.0	14.8	17.1	14.4	12.3	11.9	11.1	10.3
Yield on average loans	11.4	11.4	11.8	10.8	9.5	8.6	8.9	8.4	9.1	8.8
Yield on average investments	8.4	8.5	7.4	5.7	4.7	4.9	5.6	6.0	6.1	5.8

[1]DOES NOT INCLUDE THE ALLOWANCE FOR LOAN LOSSES

Historical Data, Federal Credit Unions

HISTORICAL DATA FOR FEDERAL CREDIT UNIONS
DECEMBER 31, 1935 TO 1969

YEAR	CHARTERS ISSUED	CHARTERS CANCELED	NET CHANGE	TOTAL OUTSTANDING	INACTIVE CREDIT UNIONS	ACTIVE CREDIT UNIONS	MEMBERS	(AMOUNTS IN THOUSANDS OF DOLLARS) ASSETS	SHARES	LOANS OUTSTANDING
1935	828		828	906	134	772	119,420	$ 2,372	$ 2,228	$ 1,834
1936	956	4	952	1,858	107	1,751	309,700	9,158	8,511	7,344
1937	638	69	569	2,427	114	22,313	483,920	19,265	17,650	15,695
1938	515	83	432	2,859	99	2,760	632,050	29,629	26,876	23,830
1939	529	93	436	3,295	113	3,182	850,770	47,811	43,327	37,673
1940	666	76	590	3,855	129	3,756	1,127,940	72,530	65,803	55,818
1941	583	89	494	4,379	151	4,228	1,408,880	106,052	97,209	69,485
1942	187	89	98	4,477	332	4,145	1,356,940	119,591	109,822	43,053
1943	108	321	- 213	4,264	326	3,938	1,311,620	127,329	117,339	35,376
1944	69	285	216	4,048	233	3,815	1,306,000	144,365	133,677	34,438
1945	96	185	- 89	3,959	202	3,757	1,216,625	153,103	140,614	35,155
1946	157	151	6	3,965	204	3,761	1,302,132	173,166	159,718	56,801
1947	207	159	48	4,013	168	3,845	1,445,915	210,376	192,410	91,372
1948	341	130	211	4,224	166	4,058	1,628,339	258,412	235,008	137,642
1949	523	101	422	4,646	151	4,495	1,819,606	316,363	285,001	186,218
1950	565	83	482	5,128	144	4,984	2,126,823	405,835	361,925	263,736
1951	533	75	458	5,586	188	5,398	2,463,898	504,715	457,402	299,756
1952	692	115	577	6,163	238	5,925	2,853,241	662,409	597,374	415,062
1953	825	132	693	6,856	278	6,578	3,255,422	854,232	767,571	573,974
1954	852	122	730	7,586	359	7,227	3,598,790	1,033,179	931,407	681,970
1955	777	188	589	8,175	369	7,806	4,032,220	1,267,427	1,135,165	863,042
1956	741	182	559	8,734	384	8,350	4,502,210	1,529,202	1,366,258	1,049,189
1957	662	194	468	9,202	467	8,735	4,897,689	1,788,768	1,589,191	1,257,319
1958	586	255	331	9,533	503	9,030	5,209,912	2,034,866	1,812,017	1,379,724
1959	700	270	430	9,[illegible]63	516	9,447	5,643,248	2,352,813	2,075,055	1,666,526
1960	685	274	411	10,374	469	9,905	6,087,378	2,669,734	2,344,337	2,021,463
1961	671	265	406	10,780	509	10,271	6,542,603	3,028,294	2,673,488	2,245,223
1962	601	284	317	11,097	465	10,632	7,0[illegible]7,630	3,429,805	3,020,274	2,560,722
1963	622	312	310	11,407	452	10,955	7,499,747	3,916,541	3,452,615	2,911,159
1964	580	323	257	11,664	386	11,278	8,092,030	4,559,438	4,017,393	3,349,068
1965	584	270	324	11,978	435	11,543	8,640,560	5,165,807	4,538,461	3,864,809
1966	701	318	383	12,361	420	11,941	9,271,967	5,668,941	4,944,033	4,323,9[illegible]3
1967	636	292	344	12,705	495	12,210	9,873,777	6,208,158	5,420,633	4,677,480
1968	662	345	317	13,022	438	12,584	10,508,504	6,902,175	5,936,181	5,398,052
1969	705	323	382	13,404	483	12,921	11,301,805	7,793,573	6,713,385	6,328,720

1)DATA FOR 1935-44 ARE PARTLY ESTIMATED

Historical Data, Federal Credit Unions

HISTORICAL DATA FOR FEDERAL CREDIT UNIONS
DECEMBER 31, 1970 TO 1997

YEAR	CHARTERS ISSUED	CHARTERS CANCELED	NET CHANGE	TOTAL OUTSTANDING	INACTIVE CREDIT UNIONS	ACTIVE CREDIT UNIONS	MEMBERS	(AMOUNTS IN THOUSANDS OF DOLLARS) ASSETS	SHARES	LOANS OUTSTANDING
1970	563	412	151	13,555	578	12,977	11,966,181	$ 8,860,612	$ 7,628,805	$ 6,969,006
1971	400	461	-61	13,494	777	12,717	12,702,135	10,533,740	9,191,182	8,071,201
1972	311	672	-361	13,133	425	12,708	13,572,312	12,513,621	10,956,007	9,424,180
1973	364	523	-159	12,974	286	12,688	14,665,890	14,568,736	12,597,607	11,109,015
1974	367	369	-2	12,972	224	12,748	15,870,434	16,714,673	14,370,744	12,729,653
1975	373	334	39	13,011	274	12,737	17,066,428	20,208,536	17,529,823	14,863,840
1976	354	387	-33	12,978	221	12,757	18,623,862	24,395,896	21,130,293	18,311,204
1977	337	315	22	13,000	250	12,750	20,426,661	29,563,681	25,576,017	22,633,860
1978	348	298	50	13,050	291	12,759	23,259,284	34,760,098	29,802,504	27,686,584
1979	286	336	-50	13,000	262	12,738	24,789,647	36,467,850	31,831,400	28,547,097
1980	170	368	-198	12,802	362	12,440	24,519,087	40,091,855	36,263,343	26,350,277
1981	119	554	-435	12,367	398	11,969	25,459,059	41,905,413	37,788,699	27,203,672
1982	114	556	-442	11,925	294	11,631	26,114,649	45,482,943	41,340,911	28,184,280
1983	107	736	-629	11,296	320	10,976	26,798,799	54,481,827	49,889,313	33,200,715
1984	135	664	-529	10,767	219	10,548	28,191,922	63,656,321	57,929,124	42,133,018
1985	55	575	-520	10,247	122	10,125	29,578,808	78,187,651	71,616,202	48,240,770
1986	59	441	-382	9,865	107	9,758	31,041,142	95,483,828	87,953,642	55,304,682
1987	41	460	-419	9,446	45	9,401	32,066,542	105,189,725	96,346,488	64,104,411
1988	45	201	-156	9,290	172	9,118	34,438,304	114,564,579	104,431,487	73,766,200
1989	23	307	-284	9,006	185	8,821	35,612,317	120,666,414	109,652,600	80,272,306
1990	33	410	-377	8,629	118	8,511	36,241,607	130,072,955	117,891,940	83,029,348
1991	14	291	-277	8,352	123	8,229	37,080,854	143,939,504	130,163,749	84,150,334
1992	33	341	-308	8,044	128	7,916	38,205,128	162,543,659	146,078,403	87,632,808
1993	42	258	-216	7,828	132	7,696	39,755,596	172,854,187	153,505,799	94,640,348
1994	39	224	-185	7,643	145	7,498	40,837,392	182,528,895	160,225,678	110,089,530
1995	28	194	-166	7,477	148	7,329	42,162,627	193,781,391	170,300,445	120,514,044
1996	14	189	-175	7,302	150	7,152	43,545,541	206,692,540	180,964,338	134,120,610
1997	17	179	-162	6,994	13	6,981	43,500,553	215,097,395	187,816,918	140,099,926
1998	8	174	-166	6,815	1	6,814	43,864,851	231,904,308	202,650,793	144,849,109

Board and Officers

Norman E. D'Amours
Chairman

Yolanda Townsend Wheat
Board Member

Dennis Dollar
Board Member

Carolyn D. Jordan
Executive Director

Rebecca J. Baker
Secretary of the Board

Robert W. Hall
Executive Assistant to the Chairman

Margaret Broadaway
Executive Assistant to Board Member Wheat

Kirk Cuevas
Executive Assistant to Board Member Dollar

Robert M. Fenner
General Counsel

Robert E. Loftus
Director, Office of Public and Congressional Affairs

H. Frank Thomas
Inspector General

David M. Marquis
Director, Office of Examination and Insurance

Dennis Winans
Chief Financial Officer

Joyce Jackson
Director, Office of Community Development Credit Unions

Robert F. Schafer
Director, Office of Corporate Credit Unions

Edward Dupcak
Director, Office of Investment Services

Doug Verner
Director, Office of Technology & Information Services

James L. Baylen
Director, Office of Administration

Lamont Gibson
Director, Equal Opportunity Program

Robert A. Pompa
Director, Office of Training and Development

Herbert S. Yolles
President, Central Liquidity Facility

NCUA Board Members

■ **Chairman Norman E. D'Amours** is an attorney and former U.S. Congressman from New Hampshire. He was appointed by President Bill Clinton in 1993 to serve a six year term, which expires in August 1999.

■ **Board Member Yolanda Townsend Wheat** is an attorney from California who specialized in banking and corporate law before President Bill Clinton appointed her to the NCUA Board in April 1996. Board Member Wheat's term expires in August 2001.

■ **Board Member Dennis Dollar,** a former Mississippi Congressman and educator, served as president of Gulfport VA Federal Credit Union before being appointed to the NCUA Board by President Bill Clinton in October 1997. His term expires in April 2003.

Field Officers

From the left standing are Region IV Director Nicholas Veghts; Region VI Director Jane A. Walters; and Region V Director Leonard J. Skiles. Seated from the left are Region III Director Alonzo A. Swann; Region I Acting Director Anthony J. LaCreta; and Region II Director Tawana James.

Region I — Albany

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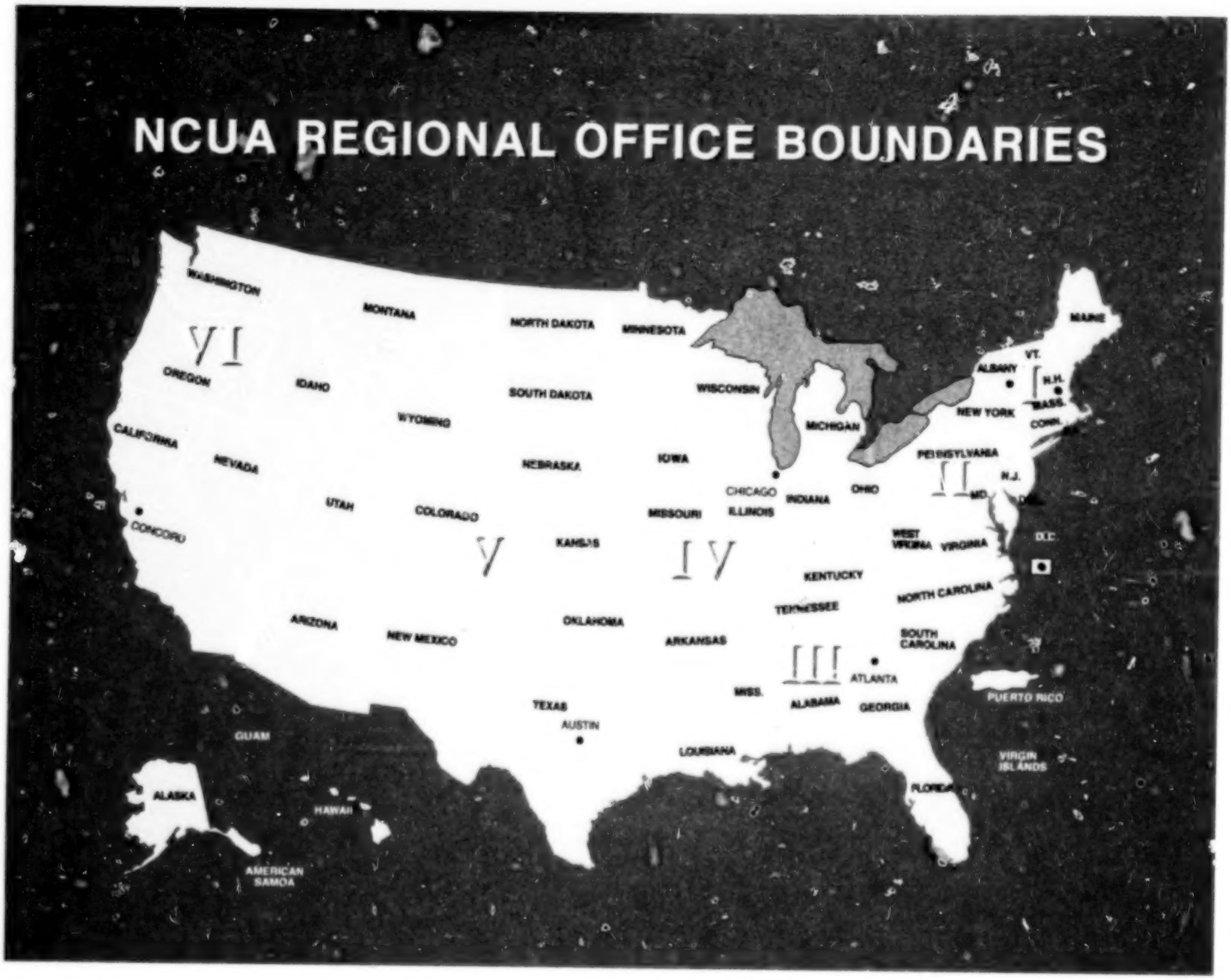
Information

General information	703-518-6330
TDD:	703-518-6332
Office of the Board	703-518-6300
News about NCUA	1-800-755-1030
	703-518-6339
Publications	703-518-6340
Credit union investments	1-800-755-5999
	703-518-6370
To report improper or illegal activities	1-800-827-9650
	703-518-6550
Member Complaints	Regional offices
World Wide Web site	http://ncua.gov

Regional Offices



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